

Environment, Food and Rural Affairs Committee

Oral evidence: Proposed Merger of Asda and Sainsbury's, HC 1167

Wednesday 20 June 2018

Ordered by the House of Commons to be published on 20 June 2018.

[Watch the meeting](#)

Members present: Neil Parish (Chair); Alan Brown; John Grogan; Kerry McCarthy; David Simpson; Angela Smith; Julian Sturdy.

Questions 1 - 278

Witnesses

I: Roger Burnley, Chief Executive Officer, Asda; Christopher Brown, Sustainable Business Director, Asda.

II: Mike Coupe, Chief Executive Officer, Sainsbury's; Judith Batchelar, Director of Sainsbury's Brand, Sainsbury's.

Written evidence from witnesses:

[Sainsbury's](#)

Examination of Witnesses

Witnesses: Roger Burnley and Christopher Brown.

Q1 Chair: Good morning, gentlemen. It is a pleasure to have you both here. We are inquiring into the Asda-Sainsbury's deal. We start with A and finish with S, so you have come in first. We are the Environment, Food and Rural Affairs Select Committee, so we will not only be asking questions about consumers; we will also be asking questions about supplies and suppliers, and what effect the merger may have upon those markets, so you are very much welcome.

The first question is quite a direct one, really: why does Asda want to merge with Sainsbury's?

Roger Burnley: Thank you, and thank you for inviting us today.

Chair: Sorry, you had better introduce yourselves, please.

Roger Burnley: I am Roger Burnley. I am the chief executive officer of Asda.

Christopher Brown: I am Chris Brown, and I am the senior director for sustainable business. My role involves sourcing and agricultural development.

Chair: Thank you very much.

Roger Burnley: Thank you for the opportunity to discuss the proposal today. If I can give the market backdrop and some context as to why we want to combine, the retail market overall has changed out of sight in recent years, and that change is faster and faster. This year, it feels like there are examples of fallout from that in the news on a daily basis: Poundworld recently, Debenhams this week, Toys R Us and Maplin, to name but some, and headlines this morning of 1,330-odd shops either closed or with concerns around closure. The retail landscape has changed out of sight.

I would add to that list—and pertinently, because it brings us to the grocery sector—M&S and its recent announcement about the proposal to close 100 stores.

Q2 Chair: Can I just interrupt you there slightly? What we are trying to drill down on is not necessarily the question behind the consolidation in the market, but why Sainsbury's? You are quite different. You are much more challenging when it comes to prices. Your prices are less than Sainsbury's. Sainsbury's has always tried to keep in the middle range of the market. I do not think you are natural bedfellows at all. It is a marriage of convenience, I think—do you not?—that suits you, and probably suits Sainsbury's better than it suits you, I suspect. Walmart is going to retain a stake but will probably want to get out in a minute.



HOUSE OF COMMONS

Roger Burnley: There is lots in there but, to quickly go back to the grocery sector, competition and change in the grocery sector has never been greater. We have discounters—the main Aldi/Lidl discounters—on the scene; we have lots of smaller bargain stores; we have a big shift towards online. More than that, we have a blurring of eating in and eating out. We have players like Deliveroo and Just Eat. The options available to customers now are absolutely massive. Where are any of us going to buy our tea tonight? The options available are huge as people increasingly shop for tonight and shop for tomorrow. Against that backdrop, Asda is doing well and we have momentum. We have just announced four consecutive quarters of growth.

Q3 **Chair:** I think you are doing better than Sainsbury's, so why this great desire to combine with Sainsbury's? I am not convinced.

Roger Burnley: Because we absolutely know we cannot afford to stand still. Our customers are savvier and savvier. They have more choice than ever before. Our role is absolutely to do the best possible job for our customers.

Q4 **Chair:** Your customers are not Sainsbury's customers; they are quite different customers. It is not a marrying of two similar beasts; it is a marrying of two quite different beasts. Why do you not do something with the discounters? Surely you are closer to the discounters than you are to Sainsbury's. There is no logic to this deal other than a financial fix for both of you, as far as I can see.

Roger Burnley: No, I would refute that. To some degree, there is no such thing as a wholly loyal customer who just shops in one place any more. Everybody shops everywhere, in general terms. Asda and Sainsbury's mean different things to customers. At Asda, we are absolutely about value and the lowest possible prices, and we are hellbent, week in, week out, day in, day out, on offering our customers the best possible value. This combination will allow us to do that. It will allow us to invest in prices. It will allow us to invest in being a better us and being a better Asda, and to sustain and secure our business for all our stakeholders—customers, suppliers and colleagues—well into the future.

Q5 **Chair:** You are very keen on prices, and we will drill down some more, but I will have one shot at you on this, because we have to look at the farming and food sector as well as just the consumer. Most of your pork is European pork; you get it from the cheapest possible place. Most of Sainsbury's pork, if not all, is British. When you combine, I take it that your style of buying will be the case, will it? You are going to save 10%, are you not, all of you? This is interesting—therefore, you are going to save it at the expense of those that supply you. I have had meetings with the chief executive of Sainsbury's who more or less told me that, so we are bound to be concerned. You are going to be a big beast in the market, combined together. You are going to extract more pain from those. It is not just going to be the Nestlés of this world; it is going to be



HOUSE OF COMMONS

all the smaller suppliers, and that is where you are going to take it, is it not?

Roger Burnley: There are two key questions in there. Let me give some context to both. First of all, on the Britishness, well over half of what we sell at Asda is British. That includes non-food, much of which is from overseas, so even more of our food is British. We buy British whenever we can while giving value to our customers. Post-merger, we will operate as two separate brands doing the right things for our customer base.

Q6 **Chair:** No, you will not. How on earth can you save 10% and tell us in this Committee that you are going to run two separate things? I am sorry; it is unbelievable. If you are going to make anywhere near the 10% saving in a hugely competitive market, you will have to take the model of the cheapest buying. For goodness' sake, be honest with us. Do not come in here and give us a load of baloney, because this is baloney, I'm sorry. You have to face the fact that, if you want to save 10% or anywhere near that, you will have to get most of it from the supply chain. I can add up. I am not that stupid.

You have two systems of buying in Sainsbury's and in Asda. For goodness' sake, tell us some truth, not that we are going to have two separate buying systems. You might for five minutes; you might for six months; you might even for a year. Further down the road, it is going to be one system. Come on, be frank. It is going to be one system with the buying; it is going to be one system with the staff. All the things that are in your proposal to Government are largely political correctness that will all disappear further down the road, so let us have a bit of honesty this morning.

Roger Burnley: We have not shied away from making the point that the synergies from our buying are what make the success of this combination. Let me just give some context to our supply base as I explain that. We have nearly 4,000 suppliers at Asda. A small number of the largest suppliers account for the majority of our turnover. For example, just 24 suppliers account for a third of the items we sell. We are talking about aligning the two buying prices, where we both buy the same item for a different price. We are talking about both of us being able to buy that item for the same price. If one of us buys something for 99p, and the other of us buys that same item for 98p, we are talking about both of us having access to that item at 98p. I think you would agree that that is only fair.

Q7 **Chair:** You have given me the answer to my question, have you not? Largely speaking, most of the lower-priced buying power at the moment in the prices is Asda, so the new regime will be an Asda price range. As you buy European pork, you are not going to buy as much British pork across the whole chain. It proves my question: that this will be the lowest common denominator. This is where it is going. The suppliers will suffer, and it may be beneficial to the consumer or it may not be, because Lidl and Aldi can deliver a better price to the consumer and a good price to



HOUSE OF COMMONS

the farmer. What you are proposing is quite the opposite.

Roger Burnley: If I can come back on two points there, first of all, as I say, the vast majority of our turnover is based on what are typically large multinational suppliers. We are not talking about creating a new low price; we are talking about merely having access to the price that those suppliers offer one of us already. We then have, of those nearly 4,000 suppliers, 1,700 that we would term smaller suppliers: suppliers with a turnover of less than £250,000 with us. They typically will supply product to only one of the two brands.

I hotly dispute that this is seen in some way as a zero-sum game. We need the supply base as much as they need us as a retailer; the two go hand in hand. We cannot be a successful retailer without a successful team of suppliers, supply base and partnerships with them.

Q8 **Chair:** Your whole model is based on the fact that you want to become 30% of the market in order to extract more power. It is absolutely obvious. Tesco is already in that ballpark, so you are going to have two players, very similar, with 60% of the market. We have a Groceries Code Adjudicator but you will know, immediately they pop their heads up, who you have to shoot at. They are going to be terrified. They are terrified enough of you already. The fact that you are just going to be bigger beasts and bite them harder is exactly what is going to happen. Why should you not sort your model out? Why should you not be more competitive? Farmers need to be more competitive. Lidl and Aldi are more competitive, so why should you not be? Why is it the supplier that has to pay the price? I do not think you will deliver the 10% anyway but, irrespective of whether you do or you do not, why is it the supplier that has to pay the price?

Roger Burnley: First of all, I refute that this is the supplier paying the price.

Q9 **Chair:** That is your model. We have had evidence on this privately. We have looked at this. You do not talk about merging the staff. You do not talk about management savings. I suspect all those will come further down the line, but you do not want to tell anybody because you do not want to frighten the horses. At the moment, your whole model is predicated on being able to buy more cheaply. When you buy more cheaply, it will be the producers and the processors, and everybody will pay the price.

Roger Burnley: If I can just give some context to the supplier reaction, yesterday we had our own-brand annual supplier conference; Chris might want to touch on that in a minute. There is a mood of cautious optimism across those suppliers because—

Q10 **Chair:** Yes, because they are terrified; that is why. They would not dare say anything, because you are going to have another Tesco out there and 60% of the market between two players. As a processor, are you going to say anything about this deal? We are having huge problems getting



HOUSE OF COMMONS

anybody to say anything at the moment, because they are all terrified. I don't buy any of this.

Roger Burnley: As I say, the suppliers need a successful retailer just as much as the retailers need a successful supplier. Those suppliers have a cautious optimism because, first and foremost, they need and want us to be successful. They need and want volume growth. From this and from us being sustained into the future and having volume growth, they have that too and they can benefit from that volume growth.

Q11 **Chair:** If they meet your lower prices, how are they are going to benefit? That is how your model is predicated. You have to accept the truth of this. It is no good coming in here and telling us what is blatantly not in your model. You have to accept that. You say it is a very cut-throat business out there. Yes, it is, but I know exactly whose throats you are going to cut, so let us be absolutely clear about that this morning.

Roger Burnley: I refute that. If I can come back to the other advantages that the suppliers supplying this combination will have, first and foremost, they will be supplying a successful retailer and we can grow together. Secondly, as I say, it is not a zero-sum game. The suppliers can take advantage of things like potentially having one packaging spec or one quality spec. There are efficiencies in dealing with one overall construct.

Chair: What is that—a quarter of a percent, half a percent? It is nothing. It is very little. There is same saving. I am going to let Angela in now, who has been busy trying to come in.

Q12 **Angela Smith:** The quality spec is an interesting one, and we will come back to that later, I suppose. The Norwich Business School has submitted evidence and, in that evidence, we are told that its own research and separate work by fellow co-authors shows that Asda in particular has often served a market role in holding or leading prices down. There must be a real concern that removing its independent competitive position will effectively take away from the market its important constraining effects on prices. What is your response to that?

Chair: It is a different side of the argument.

Roger Burnley: Do you mean the prices from a customer perspective?

Angela Smith: The evidence from Norwich Business School is that your independent position has an important constraining effect on prices—yes, to customers.

Roger Burnley: As I said earlier, the market has never been more competitive. I dispute those market share figures. At the moment, we have 12% of the market and Sainsbury's 13%, but that depends on your view of the market. Where people choose to shop and buy their food is like a lottery.

Q13 **Chair:** These figures are reducing all the time. They started off by being



HOUSE OF COMMONS

nearly 30% combined; now they are down to 25%. It will not be five minutes before they are down to 20%. Where on earth are we on this?

Roger Burnley: If I can just come back to the prices—

- Q14 **Angela Smith:** The question is this. You have an important constraining effect on prices in the market. There is a real risk that that will evaporate with this merger, surely.

Roger Burnley: It is unthinkable that we could, wholesale, ease prices up or sneak prices up. Customers have never had more choice. As I say, they have never been savvier. Customers would vote with their feet, whether that is before the merger or after the merger.

- Q15 **Angela Smith:** That is not the answer to the question. You are in an independent competitive position and you have a constraining effect on prices in relation to, I suspect, all the other major chains. I do not get a sense from you that you can guarantee that that positive impact on the marketplace will not evaporate if you succeed in merging.

Roger Burnley: As I say, it has never been more competitive. I am sure all our competition will step on again and seek to be more and more competitive.

- Q16 **Angela Smith:** Even if one supermarket, effectively—Sainsbury's/Asda—has 30% of the market, that will not change the equation. Is that what you are saying?

Roger Burnley: There have never been more players. There has never been more choice. Our competition will step on again, and ultimately competition is good. Competition makes us all better and the customer wins when there is more competition. This is ultimately about us being able to do a better job for our customers and offer better prices for our customers.

- Q17 **Angela Smith:** Let us just go to that question, then. Let us talk about some of that competition. Much smaller businesses, in terms of market share, have managed to increase their growth dramatically in recent years: Lidl, Aldi; we all know who they are. What prevents Asda and Sainsbury's as non-merged businesses, staying independent, from introducing innovations as independent businesses and keeping up with the market? Why do you need to merge to innovate and keep the market going?

Roger Burnley: You raise good examples of retailers that are successful, have volume growth and share that volume growth with their suppliers. That is what we are talking about here. We are both successful retailers. We both innovate, but we know we cannot stand still, and this is looking forward to a combination that can secure Asda doing an even better job for our customers well into the future.

- Q18 **Angela Smith:** My suggestion is exactly that you will not want to stand still, but why can you not innovate and continue changing as an



HOUSE OF COMMONS

independent operation?

Roger Burnley: We can and we do, but this is about step-changing our ability to offer customers what they want, which is better and better value and better and better prices. This is about us being competitive, in the most competitive marketplace we have ever seen, well into the future.

Q19 **Angela Smith:** Are you saying that this merger is essential if you are to deliver better prices to customers in the long term? Is this what you are saying? In other words, this marketplace will see increasing numbers of mergers in order to keep competition in place? That does not seem to make sense.

Roger Burnley: I can only speak for Asda. We get out of bed every day to work out how we can give customers better prices and better value, and this is a way for us to step-change that, sustain our future and give customers what we know they want. This is innovation in how we move forward in the business.

Q20 **Angela Smith:** What about Sainsbury's customers? If I am honest, the quality spec is slightly different with Sainsbury's. Is quality going to be the price to pay? I suppose that is a question for Sainsbury's, but this must have been discussed, particularly on meat products and fresh products.

Roger Burnley: We will stay fiercely as separate brands, as I say. It is a misnomer to say we have our customers and each retailer has its own customers. We mean different things to customers and we will stay as fiercely separate brands, as I said earlier, being a better us, in giving customers more of what they want and expect from Asda.

Q21 **Chair:** I am going to give you a chance to correct the record, because I have the figures in front of me for the grocery market share in Great Britain: Tesco 27.7%; Sainsbury's 15.7%; Asda 15.4%; Morrisons 10.5%; Aldi 7.5%. I am not going to go through them all. When I did my arithmetic, 15.4% and 15.7% makes over 30%; in fact, it makes 31%. Therefore, when you say you have 25% of the market combined, that is plainly not true. Do you want to correct the record or not?

Roger Burnley: Yes. I would say that those numbers look at a traditional view of the grocery market. We are talking about more players involved that are selling food. An increasing number of players sell food.

Q22 **Chair:** No, you said that you had a joint 25% of the market. That is plainly not true. Therefore, are you going to correct the record or are you not? I give you the opportunity to do it now; otherwise, I will pursue this after the meeting, in writing, with you. The ball is entirely in your court. You have not been truthful here this morning, so I am not going to have the wrong figures quoted. You have the choice now.



HOUSE OF COMMONS

Roger Burnley: I would like, if I may, to submit to the Committee in writing after the meeting exactly what players constitute the definition of the market, which shows a 12% and 13% market share.

Q23 **Chair:** This is a political answer. You misled this Committee when you said you had a combined share of 25%. Do you wish to correct that or not?

Roger Burnley: Yes, I wish to correct. I wish to submit in writing the constituents—

Q24 **Chair:** What do you believe the figure to be, then?

Roger Burnley: I believe our market share to be 12% of what we deem to be the competition in the market that we are competing with on a daily basis, and then, beyond that, as I said earlier, to give the context of the market, there are more and more places where people are choosing to buy and consume their food.

Chair: I am sorry, but it is not good enough. We will pursue this in writing with you afterwards. I think we have been misled.

Q25 **John Grogan:** I have one very quick supplementary on that. In your calculation of the market, are you including players like Boots as your competitors?

Roger Burnley: No, it is narrower than that in that number. I do not have every retailer that is included in that construct. I believe it is narrower than that, John, but if I could submit that in writing, after the meeting, I will be happy to do so.

Q26 **Chair:** You were likely to be asked the market share when you came to this Committee, and Sainsbury's will be asked the same questions later, so I am very surprised you do not give us correct figures.

Why is Walmart keen to retain a 42% stake in the combined business, and why does Walmart then only have 30% of voting share rights thereafter? It is not a very good deal, I would not have thought.

Roger Burnley: Walmart recognises the potential of this construct to be a part of successful retailer in the UK. It is keen that this merger takes place and very keen to be a part of it afterwards, hence its 42% shareholding.

Q27 **Chair:** I would not want to buy 42% of a business and then only appear to have 30% of the management rights overall. It seems an odd deal to me.

Roger Burnley: Walmart is absolutely happy with the skin in the game, so to speak, that it will have, the share of the business that it will have, and the influence with two seats on the board that it will have in the proposed construct. It is part of Walmart's international portfolio strategy that it is increasingly taking a different view of how to participate in



HOUSE OF COMMONS

different markets around the world, and it is consistent with some things it is doing elsewhere.

Q28 **Chair:** I am sorry, perhaps I am quite simple, but why does one buy 42% of a business and then have 30% of the say? I am sorry; I may be a simple man, but it is just not logical.

Roger Burnley: In the negotiation that has taken place, Walmart is happy to have two seats on the board.

Q29 **Chair:** Who is most desperate for this deal: is it Walmart or Sainsbury's? Sainsbury's wants to save its pension fund, but why a deal like this? It is very odd.

Roger Burnley: Walmart, Asda and Sainsbury's all see the benefits and the merits of this combination in equal measure. We are all very keen that it goes ahead because we can see that it creates two brands, sustained and successful well into the future.

Q30 **Chair:** You are obviously very keen, if you buy 42% to only have 30% of the say. As a second question, do you believe that the CMA was more likely to approve the deal between you and Sainsbury's after the Tesco-Booker merger?

Roger Burnley: The reason we have put this combination proposal forward is not related to the Tesco-Booker merger. It is about the very fast-changing retail landscape that I have outlined. This is in response to the fact that we just cannot stand still. We are successful businesses now, but we cannot stand still. We, of course, respect very much the CMA process. We know they have a long process to go through, and we will work and are working with them closely as they do their analysis.

Q31 **Chair:** You are more profitable than Sainsbury's, putting it bluntly. We had this merger of all the banks at one stage, because they were all going to save each other. It largely did not work, so is it not the case that, if you are not at all careful, you are doing this merger but it may not save either of you?

Roger Burnley: No. Again, we have momentum, as far as Asda is concerned. We have had four quarters of positive growth but we know we cannot stand still. We know this is very compelling because it means we can—

Q32 **Chair:** Sainsbury's is largely standing still.

Roger Burnley: I will not speak for Sainsbury's, but I would say we are both successful businesses.

Q33 **Chair:** You have to speak for Sainsbury's to a degree because you are about to get into bed with them: "I am going to have this partner but I am not going to speak about the partner". I think you are, because you have to work out why you are getting into bed with them.



HOUSE OF COMMONS

Roger Burnley: I have to say, first and foremost, we are fierce competitors.

Chair: You won't be in a minute.

Roger Burnley: We remain fierce competitors, legally, for the next 18 months, which means we share very little information. It would be wrong if we were able to do that through this time, but I will say we are a successful business now, and this is about making us a more successful business by being able to do a better job for our customers, as our customers increasingly demand value and lower prices from us.

Chair: The more we go through this inquiry this morning, the more I can see that it is a very interesting merger.

Q34 **Alan Brown:** On the comment there that, as competitors, you cannot share information at the moment, how do you arrive at a model that says you would both save 10%?

Roger Burnley: We have had independent consultants working on the synergy benefits, and the headlines from that have been available for the proposal. However, we do not share the detail of those supply arrangements or pricing arrangements, nor will we through the next 18 months of the process.

Q35 **Alan Brown:** Surely, if you commission a consultant that is able to look at each operation and say, "If you do X and Y, you would save 10%", that must, by default, allow each access to that information.

Roger Burnley: It does, but not at the detailed level. Can I just clarify the 10%? We have been very clear that we are committed to reducing the price of everyday items that people buy week in, week out by around 10%. There is not a direct read-through from that. Again, this is not a zero-sum game. Where we choose to invest the synergies is not necessarily where those synergies come from, which takes me back to the fact that we do most of our business through a relatively small number of very large suppliers.

Q36 **Chair:** The point that Alan makes is such a good one, because here you are, two major supermarkets combining together, yet you have not talked to each other. This is unbelievable. There are City people sitting behind us listening to this, and I do not think for one moment that they would accept that. If you are not talking to each other, and you have not done a proper deal that is going to work financially, why on earth is the City going to have anything to do with it whatsoever? The more you give evidence this morning, the more unbelievable it becomes. You are trying to spin us a yarn. You are not talking to each other, you have not worked out how the market is going to work, yet you can save 10%. Come on, get real.

Roger Burnley: Can I just correct that? I did not mean to mislead by saying that we had not spoken to each other. My point is that we will not work up and discuss the detail of the individual suppliers.



Q37 Chair: You cannot get these figures on a 10% saving and the reason for combining the two supermarkets without having proper discussions with each other as to how this is going to work. I know you do not want the CMA to know that you have had too many discussions, and you have to be so careful about what you all say, but come on; we are not children. You cannot just come in here, give us a little nursery rhyme and think, "This is what the Select Committee is fit for". We are the Environment, Food and Rural Affairs Select Committee; come on. Let us have some sense out of you, even if it is not the truth.

Roger Burnley: I am sorry, and I am keen to be as helpful as possible. The point I am making is that, legally, we are competitors and are bound by law as competitors, and some of this is market-sensitive information. Yes, of course we have talked about the deal, but not in working up the supplier and product-specific detail within it.

To go back to the 10%, we have talked about investing some of those synergy benefits in reducing the prices of everyday items by 10%. That does not mean a wholesale 10% reduction of costs in the supply chain. That is where we would envisage and are committed to investing some of those synergy benefits, and that is not a read-through to the supply base.

Q38 Chair: Do you not think, in hindsight, selling this deal on a 10% benefit to the consumer, when you cannot come out into the open and say how much discussion you have had with Sainsbury's, is somewhat an overselling of the deal at the very least?

Roger Burnley: No. We know the size of the overall synergy benefits. We are absolutely committed to making those savings because we know that is what our customers want.

Chair: You know how you are going to make those savings, so you have had discussions. If you had not had discussions, you would not know how to make those savings. No, I don't want any more. Let us just park it there because, like I said, we are getting a load of nursery rhymes this morning.

Q39 Angela Smith: The chief executive of Sainsbury's previously acknowledged that the acquisition of Argos in 2016 was intended partly to counter the increasing threat from Amazon. Is the entry of Amazon into the groceries market a key factor in the decision to go through this merger?

Roger Burnley: I don't know about a key factor, but it is certainly a factor. It is undoubtedly one of the players I have talked about in the more and more competitive market that is changing more and more quickly. Yes, it is certainly one of those players that are making it a more competitive environment and doubtless will in the future.

Q40 Angela Smith: Whatever one's views are of Amazon and the way that it operates, it is incredibly innovative. I go back to my earlier question: is



HOUSE OF COMMONS

the merger really an attempt to shortcut a campaign to maintain share in the market? Rather than focusing on innovation and competing with Amazon independently, merging with Sainsbury's is just a shortcut to maintaining market share.

Roger Burnley: It is not a shortcut. It is about unlocking innovation, success and volume growth to our suppliers, and prices to our customers. It is, in itself, innovative.

- Q41 **Angela Smith:** I don't see where the innovation is, frankly. The innovation in Amazon is obvious and quite exciting. I do not buy groceries from Amazon, but it is, nevertheless. Where is the innovation? You are cutting suppliers' costs and cutting some food costs by 10%. That may be innovation, but it is very routine. Where is the real innovation? Where is the step change?

Roger Burnley: Both businesses are innovating all the time. Walmart innovates. Both businesses will have access to Walmart's innovation. From the supply base's perspective, suppliers at our own-brand conference yesterday that are currently only Asda-brand suppliers were talking about the prospect of supplying Sainsbury's and taking the best of both worlds, so innovation will be promoted through what we are doing.

- Q42 **Angela Smith:** What will happen to Sainsbury's own-brand suppliers? That is not innovation; that is displacement.

Roger Burnley: Typically, the smaller suppliers I have talked about will only supply our brand. As I say, we will remain as two separate brands but they will have an ambition to sell their unique product elsewhere in the market as well.

- Q43 **Angela Smith:** There will be increased competition between small suppliers while reducing competition among the groceries market players.

Roger Burnley: It is not necessarily increasing competition; it is potentially opening up a wider market to those suppliers that currently only supply our brand.

- Q44 **Angela Smith:** There are going to be winners and losers in that, clearly.

Roger Burnley: The supply base never stands still but, again, at a headline level, the suppliers want and need volume growth. This is about growing and having sustained growth, and that is why the suppliers understand that that is ultimately a good place to be. They need us growing as much as we need them growing.

- Q45 **Angela Smith:** This is the message you are getting from your small suppliers universally.

Roger Burnley: I will genuinely say there is a level of cautious optimism. I say "cautious" because we are unable to share that level of detail: suppliers yesterday were saying, "I would love to be able to change this supply arrangement because Sainsbury's depot is down the road for me. We are a mile away". Yes, there is cautious optimism. In the



HOUSE OF COMMONS

end, our supply base knows that they want and need a successful and growing Asda for them to be successful too.

Q46 **Angela Smith:** Do you see your supply base effectively trumping Sainsbury's supply base in terms of the future merged arrangements?

Roger Burnley: No, not at all. We will remain separate brands.

Chair: No, you will not, if you are going to save your 10%.

Angela Smith: You just said you are going to bring the supply base together. It does not add up.

Chair: No, it does not.

Roger Burnley: I am sorry; could you repeat the question?

Q47 **Angela Smith:** The point was that you were talking about extending the access of your current supply base for your own-brand products to Sainsbury's. You want to bring increased competition into play in the supply chain.

Roger Burnley: I gave that as an example of a supplier supplying a unique product to us. Chris, you might want to come in with some examples.

Q48 **Angela Smith:** Can you give us an example of a unique product?

Christopher Brown: A good product example would be Trewithen Dairy down in Cornwall.

Angela Smith: Sorry?

Christopher Brown: Trewithen Dairy. I do not know if you are aware, but it is a supplier with a Cornish supply chain doing Cornish milk in Cornwall. It does not currently supply Sainsbury's.

Roger Burnley: We have 400 suppliers—

Q49 **Chair:** On the milk, that was the wrong one to go for, because Sainsbury's has a deal with farmers on milk prices but you do not. You just buy it through the general market. That was definitely the wrong one to go for.

Christopher Brown: Can I help you with that, Chair?

Chair: I suspect that, in a minute, instead of having a Sainsbury's deal with the dairy farmers, we are going to see no deal at all across the big supermarkets. You have just given me an excellent line there. Come on. Like I said, we are being told a story this morning that suits you and Sainsbury's, but it is not true, what we are getting. We know that, in the end, it will be the suppliers and the processors that are going to pay your 10%. We have taken evidence privately on this and I am absolutely convinced by this. You might get away with it; you might not. Like I said, we will see. You cannot make a 10% saving in the market without



HOUSE OF COMMONS

somebody paying for it. This is bizarre; it is absolutely bizarre. Consumers could well benefit, and that is great, but you have to tell us where you are going to get those savings from. You cannot just come in here and say "Everything will stay the same but we are going to make 10% savings". No, you are not.

Roger Burnley: I will let Chris come in and talk about milk in a second.

Chair: Milk is one of those things; pork is another, which I raised earlier. You have very much a European process of buying pork. You buy the cheapest you can. Sainsbury's buys British pork. In a minute, you are all going to buy the cheapest you can get, from wherever you can get it.

Angela Smith: And it sells Cornish cheese.

Chair: Exactly. You have no deal on buying direct milk from dairy farmers, but Sainsbury's has. I will ask Sainsbury's about that later.

Angela Smith: It sells Davidstow.

Roger Burnley: Can I just come back on the 10% figure? Again, the 10% we have committed to is our commitment to reduce the price of everyday items to our customers by around 10%.

Q50 **Chair:** That is milk, bread, cheese and butter, much of which is produced in this country, and much of it has been under pressure for several years now. This is who is going to pay the price.

Roger Burnley: Again, you should not read through from that 10% for those items to where the synergy benefits will come from and be invested. The majority of our turnover—of what we sell—comes from a relatively small number of typically large international businesses. Where we choose to then invest those synergy benefits is where it means most to our customers, which is why we will choose, as part of investing those synergy benefits, to reduce the cost of everyday items to our customers by around 10%. That is not a read-through.

Q51 **Chair:** You are going to achieve what Tesco cannot achieve at the moment. It has basically the same percentage of the market as you will when you combine, or slightly less. Why is it so useless if you are going to be so good?

Roger Burnley: I certainly do not see it as useless. All our competitors are—

Q52 **Chair:** I was being facetious. Come on. Let us get some straight answers here. We have not had any straight answers yet this morning.

Roger Burnley: At the end of the day, this is about our customers demanding value and demanding lower prices. We seek, every day, to give our customers better and better value, and this will allow us to step-change that.

Q53 **Chair:** Nobody is arguing about that. The argument I am making to you this morning, which surely you should have expected when you came in



HOUSE OF COMMONS

this room, is about how you are going to get to the 10%. We are largely of the opinion—and I have heard nothing from you this morning to make me think to the contrary—that it will be your suppliers that pay the price, because your model does not make savings elsewhere on staff, management and all these things. I suspect that, in reality, you will make those savings, because you will not stay, in the long term, as two supermarkets; you will combine as one. That is where the savings are. Like I said, you cannot come out and tell us the truth, can you?

Roger Burnley: We will not merge to be one supermarket. We will stay as two fiercely separate brands.

Q54 **Chair:** In reality, that is where it all goes. Again, it is another children's tale that we are having this morning.

Roger Burnley: I say again that the synergy benefits come from merely aligning the two prices that one of us enjoys already from typically large suppliers. It is not about creating a new low; it is about having access to a price that already exists for one of us in the market.

Q55 **Chair:** Of course it is about creating a new low, because you cannot get to a 10% saving without getting to a new low. It just does not add up. I will park that one there. Finally, before I let other people have a go, did Asda have any formal or informal discussions with the CMA before the merger was announced?

Roger Burnley: No, we did not have formal discussions with the CMA. We worked with advisors who took a view on how the market would be viewed by the CMA, but we did not have discussions.

Q56 **Chair:** You were quite hesitant there.

Roger Burnley: I was being careful to make sure I answered correctly.

Q57 **Chair:** Did you or did you not have discussions?

Roger Burnley: No.

Q58 **Chair:** You did not, so you went into this entirely blind. You and Sainsbury's went into it entirely blind and presented this to the City, and you have not talked to the CMA at all. We will ask Sainsbury's the same question.

Roger Burnley: We worked with independent consultants.

Q59 **Chair:** Did they talk to the CMA?

Roger Burnley: That is the bit I will need to check and come back to the Committee on in writing.

Q60 **Chair:** Why would you employ independent consultants if they did not? Come on. We are getting such nonsense.

Roger Burnley: No, I don't believe so. The consultants had experience and were looking at the whole market and previous examples of CMA



HOUSE OF COMMONS

decisions, but the consultants' work has focused on how the market would be viewed and the compelling case for the combination. In the end, we know the CMA has to go through a long and rigorous process. We strongly believe that its outcome will be positive for the combination because, in the end, it is there to represent the interests of customers, and this combination is in the interests of customers.

Q61 **Chair:** When do you hope the CMA's investigation will conclude?

Roger Burnley: We envisage it being an 18-month process, so sometime in the second half of 2019.

Q62 **Chair:** We are going to have to wait for some time, then.

Roger Burnley: Yes.

Q63 **Chair:** You don't think it is going to happen sooner than that.

Roger Burnley: I don't think so.

Q64 **Angela Smith:** Lord Haskins this morning has claimed that this proposed merger gives Walmart "an elegant exit from the British market". Is that true?

Roger Burnley: No, that is not true. Walmart is taking a 42% share. Walmart could have easily not taken any share, or a smaller share. Walmart wanting and having a 42% share in the combination shows its commitment.

Chair: I suppose one can buy shares and one can sell shares.

Q65 **Angela Smith:** I have to say the word "elegant" is the operational word: "elegant exit from the British market". In other words, the hint is that, in the medium to long term, Walmart will exit the British market.

Roger Burnley: I respect Lord Haskins's view, but that is not true.

Q66 **Angela Smith:** It is not true, so Walmart will be around in 10 years' time.

Roger Burnley: The industry is so fast-moving that Walmart would not make any commitment anywhere in the business over that sort of length, but it has no plans to make an elegant exit. It is a 42% shareholder of the new combination because it wants to be part of it.

Q67 **Chair:** This is not a short-term fix that suits you and Sainsbury's, then.

Roger Burnley: No.

Chair: No, interesting. I suppose history will see who is right on that one. David, please.

David Simpson: Thank you, Chairman. The question I was going to ask has been stepped all over.

Chair: Yes, we have rather overtaken it, so I apologise for that.



David Simpson: That's the way it is. I will come from a different angle on the whole issue around the 10%. The Chairman said that he wants to park it.

Chair: Go on; carry on, David. I wanted to park it, but you don't need to.

Q68 **David Simpson:** This is from the suppliers' point of view. Chris, what was your role again within the organisation?

Christopher Brown: My title puts me in charge of sustainable business, but that involves work with the supplier base.

David Simpson: That is the point that I want to raise. You have been very quiet so far.

Chair: Yes.

Christopher Brown: I have tried.

Q69 **David Simpson:** In relation to the whole issue around the supply base, with the merger taking place, how much discussion have you had with your suppliers in relation to this? How often do you review your prices with your suppliers?

Christopher Brown: Roger has already referenced that it was our own-brand supplier conference yesterday, and 400 people were there. I cannot confess to having met all of them, but I met a fair few. That term that Roger used of "cautious optimism" applies. The only information that they have, similar to most people, is what has been in the press. They would love to know what the final conclusion is, but we do not know where we will be in 18 months' time. Some of them were starting to think, "What are the implications?" Roger gave the example before of being able to talk about opportunities within the Sainsbury's supply chain; they have already thought that one through. It was a carrot supplier who said, "I grow my carrots a mile down the road from a Sainsbury's depot. It would save me a lot of logistics issues if I could put them into there". That is the type of early thought process but, until we see the details and the final conclusion, it is difficult for them to make a final judgment.

Q70 **David Simpson:** In many cases historically, when it comes to pricing within supermarkets, in those meetings with the buyers, the processors and whatever, there is an emphasis on the processors having to tighten their belt: "We have a margin to get; therefore, we need product at a certain price". Is it as ruthless as that?

Christopher Brown: I don't believe so. If you look at our history, when Walmart came and bought us back in 1999, I remember the industry saying, "This is going to be a disaster" and everything else. Look at our history. We have been able to show ourselves to be good customers and we have good, strong relations with suppliers. We have long-standing relationships. Our milk comes from Arla. It is a decade-long relationship, if not older, from previous incarnations.



HOUSE OF COMMONS

Q71 **Chair:** You do not buy milk directly from the farmers, like Sainsbury's and Tesco.

Christopher Brown: In 2004, we did. We were the first supermarket to have a dedicated segregated supply chain.

Q72 **Chair:** Not any longer.

Christopher Brown: You will remember, Chair, that the farmers joined the Arla amba co-operative. At that time, the farmers, because we had a representative structure, came and asked if we could pool all our milk. They felt uncomfortable about having an excessive price while being members of a co-operative. That is what we did. In 2015, we established a base price. As a matter of record, the base price we have been paying was related to the market price. The market price was 31p in December. The cost of production model contracts was at 28p to 29p, so we pay a market price for our milk.

Q73 **Chair:** You are quoting me a market price when the market is up. You also pay a market price when the price is down.

Christopher Brown: No, I have a floor.

Chair: The Sainsbury's and Tesco deal helped the dairy farmer through the tough times. Your model does not. Your model just drives to the market, which is fine, but the whole of idea of these systems is to try to take some of the peaks and troughs out. That is the issue, but carry on, David.

Q74 **David Simpson:** In relation to pricing, and you mentioned the milk situation, more and more discussions have been held—I will refer to Northern Ireland—as regards the processors and the primary producers, in relation to long-term contracts and pricing contracts where the farmer is guaranteed an income at a certain price. In order for that to happen, we need the co-operation of the retailers—the likes of you. What is your view on long-term contracts with the processors, which then go to the primary producer, going forward with pricing to give farmers a sustained income? My last question is in relation to the pricing: how often do you review your pricing with your suppliers?

Christopher Brown: It depends on the product. On things like lamb, which have a market price, we will follow up with the market on a weekly basis. You talked about long-term contracts. Our deal with Arla is a three-year contract, which gives security for it to be able to see investment in the Arla chain. It extracts value for us too, because that relationship has meant that we have access to some of the Arla-branded products, things like Best of Both and Cravendale butter, which feature prominently in our stores.

Q75 **David Simpson:** I accept what you are doing on milk, and I know you have done that. In relation to meat products—well, milk is volatile as well—as you say, lamb changes on a weekly basis; beef prices move up and down. You are purchasing pork elsewhere. Do you foresee, when the



HOUSE OF COMMONS

merger takes place, that there will be a greater partnership between the processor and the primary producer going forward? If, at your organisation, this is to be successful, you need the suppliers, just like the processors need the primary producers, for the food chain and the sustainability of food and supply. Do you see, going forward, if the merger is agreed, that there will be a greater partnership between all three?

Christopher Brown: I am not sure I can predict the future to that extent.

David Simpson: Give it a go.

Christopher Brown: We are pretty confident, but we need strong supply chains. We need strong, profitable suppliers. We have a history of delivering long-term business with many of them. Dale Farm would be a good example, moving back to farms.

Q76 **David Simpson:** My final point, from that point of view, is that you need consistency of supply. You, as a retailer, need to realise what the profit margins need to be for the processor, who passes it on to the farmer as well. On the 10% cut, you mentioned a number of products. Can you tell us today what products you are talking about? The Chairman touched on a number of them hypothetically, but can you tell us today what products you are talking about?

Roger Burnley: No, for a couple of reasons.

Chair: This is something else you haven't talked about.

Roger Burnley: First of all, we are not at that level of detail, genuinely. We are 18 months away from completion. Secondly, it is absolutely competitive information. I could not sit here and discuss our pricing strategy and our strategy from a competitor perspective. I could not and would not at this point. I come back to the 10%: again, the 10% is about reducing the cost of those everyday essentials. That is where we will choose to invest a chunk of the synergy benefits, not where they will come from.

Q77 **Chair:** What are the everyday essentials? One minute you tell us you have not had these discussions and then you talk about everyday essentials, so let us ask you: what are they? You talk about everyday essentials: what are they?

Roger Burnley: It is typically the lines that people buy week in, week out, so it is bread, milk, dairy products and protein products. It is those things that people need to buy every week.

Q78 **Chair:** What are protein products—meat?

Roger Burnley: If I can just come back—

Chair: No, come on; I want an answer to the question. What are everyday products?



HOUSE OF COMMONS

Q79 **Angela Smith:** Is fish an everyday product?

Roger Burnley: I am not going to go into the detail of where we are going to be investing our pricing in 18 months' time.

Q80 **Chair:** You know what they are, do you not? You know what they are; otherwise, you would not be able to get to your 10% saving. This is where you are in great difficulty this morning.

Angela Smith: Nobody goes down the protein aisle at Asda.

Chair: Exactly. "I am going to go and buy protein today".

Angela Smith: Asda does not do a protein aisle.

Roger Burnley: Sorry, I apologise for using a retail term. We know our customers and the lines that they buy most, and that is how I would characterise them. The lines that they buy most and buy each week are the things that we are hellbent on doing an ever better job on for our customers and reducing for them. We genuinely have not worked up the detail of exactly what those lines will be in the new combination, and it is not something I can sit in such a hugely competitive market and talk through.

Q81 **David Simpson:** On the 10%, the fear is that, when you sit down to look at the products and to look at the reduction of 10%, you will try to make some savings, but the producers will have to make some savings and, ultimately, the farmers will have to tighten their belts on the already extremely tight margins that they are getting. That is the fear, so you have a lot of convincing to do that that is not going to be the case.

Roger Burnley: We understand that fear and, as we get closer to certainty and beyond merger, we will be working hard with the supplier base to allay those fears and let them see how, growing with us, this brings opportunity to both of us. Again, we know we cannot be successful without a successful supply base. Our suppliers need us to be successful; we need them to be successful. It is genuinely a partnership, and I am genuinely not trying to be difficult.

Q82 **Chair:** They are not going to pay the 10%, then, are they? You can tell us on the record this morning that you are going to save it by having a few depots that are closer together and a few percentage points, and the 10% is not going to come from the producer. You can give us that categoric assurance, can you?

Roger Burnley: I clarify again that the 10% is not a number we have talked about in terms of savings—

Q83 **Chair:** Can you answer my question? You can give us a categoric assurance this morning that the 10% reduction in the prices of the essential items that people buy—milk, meat and all those things—will not be made from the primary producer.



Roger Burnley: Yes, I can categorically say that the synergy benefits on which the combination is predicated are not based on making 10% savings from individual suppliers as you are describing.

Q84 **Chair:** What percentage savings are you expecting to make from them, then, if not 10%? You have given us your Mickey Mouse figures this morning. Could you please give us some reality?

Roger Burnley: I am sorry, but it is confidential and market-sensitive information. We cannot talk any more about the synergy benefits than we already have.

Chair: These are the conversations you have not had in order to make your 10% saving, so it all gets bought up by the City and the CMA does not get too cold feet about the whole thing. Like I said, it is just unbelievable.

Q85 **Julian Sturdy:** I just wanted to go a bit further, following on from David's questions, if I can. You have talked a lot about a step change in how you are going to give better value to customers. You have talked about synergies. You mentioned earlier independent consultants working on savings for you. I understand the market sensitivity and that you are not going to tell us the exact figures or the exact products over this 10%, but could you just give us a broad outline as to what the independent consultants are working on, as in savings and the synergies? If that 10% is not going to come directly from the supplier, what other areas within the business and within the merger are you looking at?

Roger Burnley: I say again that the 10% number is around what we would choose to do on everyday items, which are lines that a lot of volume goes through, but a relatively small number of the tens of thousands of lines that both brands sell.

Q86 **Chair:** The consumer is not going to really get 10% cuts on many products, are they? That is even better now. Basically, you are saying that for very little of your turnover there will be a 10% saving. You cannot have it both ways. Either the consumer is going to get a wonderful deal and they are going to have 10% off many products, or they are going to have 10% off only a few.

Roger Burnley: No, I am not. The point I am making is that we have committed to investing some of the synergy benefits in the lines that we know matter most to our customers, which are the week-in, week-out, everyday essentials. That is where a chunk of the synergies will go but, again, there is no read-through to that 10% having an impact on anybody upstream. That is where we will place some of those synergy benefits, just as that might be on quality or on value elsewhere.

Q87 **Julian Sturdy:** Going back to my question, can you give some examples of where those savings are going to come from? What have these independent consultants talked about? I understand there is some market sensitivity around it but, when you are talking about not taking it



from the supply chain, give the Committee some examples of where those savings are going to come from, which the merger, as you or your consultants believe, can deliver.

Roger Burnley: We have been very up-front and we have not shied away from the fact that the majority of those synergies come from aligning those two buying prices to the one that one of us is already benefiting from and, again, not creating a new low. That is really important and only fair. There are two other areas that benefits come from. From a property perspective, we have talked about what has been successful for Sainsbury's—the Argos stores inside Sainsbury's stores—and the benefits that that can bring from an Asda perspective. Secondly, there are some synergies on things that are not about goods for retail.

Q88 **Julian Sturdy:** Does that not give you just more market capacity rather than savings? Bringing Argos into Sainsbury's and things like that just gives you more market—

Roger Burnley: That is part of the model that, from a property perspective, is really efficient and has worked well for Sainsbury's. Then there is a third chunk, which is not about goods that we are selling to customers. Although we will operate as two fiercely separate brands from separate offices, there are other synergy benefits that would come from being able to operate together. For example, when we look at investment that we might need to make in the future in the supply chain, we might be able to do a better job by looking at the infrastructure of the two businesses. However, we have not shied away from the fact that the majority comes from that synergy in buying terms.

Q89 **Julian Sturdy:** Can I use a hypothetical example? Chris, you were talking to your own-label suppliers this week—you mentioned a carrot supplier. This is just a hypothetical example of a carrot supplier who currently supplies Sainsbury's, for example, and they choose to supply Sainsbury's because they are being paid 5% more, rather than going to Asda on the contract. In this hypothetical scenario, when the merger happens, will that carrot supplier be paid 5% less, because that is where Asda is in the marketplace for buying carrots, whereas Sainsbury's is paying 5% more?

Roger Burnley: No, that is not a read-through. We just are not remotely at that level of detail. The synergy benefits we have talked about, though, are around—

Q90 **Julian Sturdy:** You talked about a 99% to 98% scenario very early on, did you not?

Roger Burnley: Yes, but I come back to the fact that, as I say, a third of what we sell comes from just 24 multinational suppliers. Those are where the synergy benefits most predominantly come from. We are not talking about hurting the small suppliers that we want to continue to work with. As I say, we have 1,700 small suppliers that are really important to us



HOUSE OF COMMONS

and we need to continue to work with, and we need them be successful as much as they do us.

Chair: That is very good evidence.

- Q91 **Julian Sturdy:** Flipping that on its head—and again, it is a completely hypothetical scenario—say that the carrot supplier is supplying Sainsbury's and getting 5% more over an Asda contract. I do not know whether that is the case with the supply contracts, but I am just using it as a hypothetical scenario. Are you telling me that it might go the other way and that Asda might pay 5% more for their carrots?

Roger Burnley: We just cannot comment at that level of detail, but this is not about those small producers and small suppliers with whom we have and want to continue to have a long-standing relationship. The example Chris gave from yesterday was a guy saying, "I would love to be able to enter the supply chain of the new combination here because it is a lot closer to me", and maybe, in that example, another carrot supplier is closer elsewhere. That is the sort of opportunity of working with the combination that would come to light. Again, this is 18 months away from the CMA completing its very significant process, and we are not at that level of detail. I am not just being difficult.

- Q92 **Julian Sturdy:** I know. I accept that, but do you also understand that there is a level of concern, whether it is a carrot supplier or a coffee house, that these small suppliers, at the moment, do not know where they are going to be in 18 months?

Roger Burnley: Yes, and where we can reassure them we absolutely will. We gave them quite a lot of reassurance at our own-brand conference yesterday. We need and want those suppliers. By the way, lots of them absolutely recognise the three opportunities they see, which are: first and foremost, volume growth from being successful with the new combination, which is so important to them; secondly, opportunities, whether it is quality specs, packaging or the sort of logistics example we just talked through, with the opportunities that can bring; and thirdly, potentially, if they have a unique product, the opportunity to pitch that to the appropriate retailer.

- Q93 **Julian Sturdy:** When will you confirm that? When will you go out there and reassure those suppliers?

Roger Burnley: We have been talking to the suppliers about the construct and where those synergy benefits come from. It is important that we communicate with them, and we are doing, on the construct, how this is good and the opportunities this brings them. Of course, they read the media on a daily basis, which takes a certain view, and the negative view is the one that will grab the headlines.

- Q94 **Julian Sturdy:** Is it going to be in six months' time?

Roger Burnley: We will talk to them, but it will only be after the merger completes that we will go into the detail of each supplier.



HOUSE OF COMMONS

Chair: It is 18 months down the line, then. We had better leave it there, but it is on record that you are going to look after your small suppliers, so we will make sure we put that in bold letters. Kerry, please.

Kerry McCarthy: We have just covered all of it in a great deal of detail, so skip me.

Chair: I am sorry, but there must be something you want to raise.

Kerry McCarthy: I will come in on later questions but, on the supply chain, I think we have done it.

Chair: Angela, please.

Q95 **Angela Smith:** To some extent, my question has been covered as well, but I just want to return to Chris Haskins's argument, which was laid out in a piece in the *Times* this morning very succinctly. The point that Lord Haskins makes is that Sainsbury's says the pain will mainly hit the 100 largest suppliers, which typically make fat profit margins. I know this is partly about Sainsbury's, but your point is about the synergies. The point is that, further down the supply chain, there will be an impact. Can you guarantee that there would not be that negative impact further down the supply chain from a merger, if it were to take place?

Roger Burnley: I understand the question. The first thing I would come back to is that it is not a zero-sum game, so the suppliers have an opportunity. It is not about a direct read-through from those typically major international suppliers. We would be very disappointed if it got to the point of a direct read-through to an impact on their primary suppliers. It is not something we would advocate; indeed, we have gone on record as supporting the GCA having extended powers over the suppliers of suppliers. That is a view.

Q96 **Chair:** That would be very useful if we had the Groceries Code Adjudicator expanding.

Roger Burnley: Yes, we have gone on record as supporting that. Again, we see the benefits from those larger suppliers not coming from needing to do that.

Q97 **Angela Smith:** Let us take another supplier. The example used by Chris Haskins is Weetabix. All the wheat grown for Weetabix is grown by farmers within 50 miles of its mills in Northamptonshire. If Weetabix takes a cut as a result of this harmonisation, what will happen to the farmers who supply the cereal? It is a real-life example of the commitment you have just made.

Roger Burnley: I understand the question. I am not privy, right now here, to the margins that Weetabix already makes. I understand that it will have benefits of volume growth with the new combination and other synergy benefits that come.

Chair: Weetabix supplies every retailer in the country.

Q98 **Angela Smith:** It is the same price in Asda as Sainsbury's today. It is



HOUSE OF COMMONS

£2. I have just looked online. It is £2 at your store and £2 in Sainsbury's.

Roger Burnley: I could not even tell you the specific detail of whether there is a variation in that buying price, but I come from the other angle. What is the fairness around either of the two brands at the moment being charged a different price for exactly the same item from a cost-price perspective?

Q99 **Angela Smith:** Can I just ask for a commitment from you? Will you commit to buying from British farmers first and not to reopen negotiations with small to medium-sized suppliers in the first 12 months after the merger goes ahead?

Roger Burnley: Commercially, we would not make any such broad, sweeping commitment. I will commit to our continued—

Chair: You are quite different from Sainsbury's, because Sainsbury's buys most of its products—especially its pork and others—from British suppliers, and you do not. This is a real nub of the question.

Angela Smith: These commitments are what the British public will be looking for.

Chair: They like British food and they like good standards.

Angela Smith: Especially in the context of Brexit—the dreaded word—this makes it particularly sensitive. British farmers are feeling very vulnerable.

Chair: Angela, we got through an hour and 10 minutes without mentioning Brexit.

Q100 **Angela Smith:** I know. It was always going to be me, wasn't it? Seriously, this is a commitment that British farmers will be looking for. You have to win public approval for what you are trying to do.

Roger Burnley: I understand that. We are committed to buying British, wherever we can, at the moment, and that will continue. Over half of what we sell now is British, so I understand the question.

Q101 **Angela Smith:** This is all so nebulous. This is a big strategic merger and yet, when we try to drill down into the detail—what it will mean for consumers, suppliers, farmers and prices—all we get is: "Well, I cannot give you a specific instance. It may be different here. It may be different there". How can we have any confidence in this merger, given that the strategic case is not being underpinned by the evidence of the impact on a day-to-day level? How can we do that?

Roger Burnley: I understand the frustration and I apologise. I am truly not trying to be difficult. I have been clear on where the synergy benefits will come from at a headline level. At the end of the day, this is a good thing for customers.

Angela Smith: Why?

Chair: But there is no commitment to buy British. I think you have a



HOUSE OF COMMONS

commitment to buy the cheapest you can get, and you will get that from anywhere in the world.

Angela Smith: It will be New Zealand lamb.

Q102 **Chair:** Just tell us that. Don't stay here dancing on a pin, basically.

Christopher Brown: No, I disagree. You raised the issue of wheat.

Q103 **Chair:** For your pork, you are going to change from your present system to buying British, are you?

Christopher Brown: We buy from Cranswick, which is a major Yorkshire business.

Chair: Yes, but you buy from all over the place as well. This is the sort of commitment we want here, at the end of the day.

Q104 **Angela Smith:** Our sheep farmers are under threat. They export 40% of their product to France and they need more of the British market, but the risk is that we will see more New Zealand lamb in Sainsbury's and Asda rather than less.

Christopher Brown: Our New Zealand lamb volumes are down by 30% since 2015. Our wheat in our bread at the moment is 100% British. I am not privy to Weetabix's procurement system, but a lot of wheat systems are based on the futures markets. They are based on a premium above where the future markets are, and those are based on global trends. We all know that that is part of what the food industry operates to.

Q105 **Angela Smith:** What you have just said I totally understand, but it indicates a real difference in ethos, I suppose, for want of a better word, between Sainsbury's and Asda at the moment, because Sainsbury's thinks that its market share depends partly on having a commitment to a farm-to-fork supply chain and direct relationships with British farmers. It is the risk of that being compromised that we are most concerned about.

Roger Burnley: I understand the question. I would say again that we are very separate brands. We mean different things to our customers. We too are committed to be British wherever we can offer the right value to our customers. Our track record is to become more, not less, British. I will not try to forecast what will happen beyond the merger, but—

Q106 **Chair:** Why do you want the merger if you are going to remain separate? I am sorry; it is just not reasonable.

Roger Burnley: You are talking about the most British of the big players combining with one with an ambition to be British wherever we possibly can, while giving our customers what they want. That, overall, is good news for British farming.

Q107 **Angela Smith:** Why?



HOUSE OF COMMONS

Roger Burnley: Because it opens up more opportunity. There is inherently more Britishness and more opportunities for those farmers, by the way, supplying a successful, growing business.

Q108 **Angela Smith:** You will be using more of Sainsbury's suppliers. That is not what you said earlier.

Roger Burnley: Over half of what we source is from the UK. We will be a more successful business as a result of this combination. Our suppliers will share in that success.

Q109 **Chair:** Over half of what you source at the moment is from the UK, so that is reasonable, is it, in your view? I think that is far too low.

Roger Burnley: That includes all our non-food, as I say.

Christopher Brown: And bananas and citrus.

Roger Burnley: And wine.

Q110 **Chair:** What are the figures on cheese and butter? We would like those in writing, please.

Roger Burnley: Yes, I am happy to submit that after the Committee. All our milk is British, for example.

Chair: We are not going to get a commitment to buy British, so we are wasting our time.

Q111 **Alan Brown:** If we look at the Groceries Supply Code of Practice and compliance with the practice, in a 2017 Groceries Code Adjudicator survey Asda came out second bottom in the pile. By contrast, Sainsbury's was second top. The Groceries Code Adjudicator said she hoped that, following the merger, Asda will move up towards where Sainsbury's are operating. Do you share that optimism?

Roger Burnley: First of all, merger or no merger, I am hellbent on continuing to improve our track record in how we deal with the supply base. Those instances that resulted in last year's survey, which I am utterly not going to defend, are around a specific piece of work that Asda did back in 2016. Since then, we have worked really closely with the Groceries Code Adjudicator. We have put in place our own supplier liaison function with a senior director. We have the supplier helpline and we have gone again on compliance training. We have put a lot in place.

At that survey, 88% of suppliers said that they were happy in their dealings with Asda, but that 12% is too big and, on my watch—I have been chief exec since 1 January—I am hellbent on reducing that and constantly improving our track record. In the survey this year, I am confident we will see a significant improvement, but we will never rest on our laurels.

I guess the point I am making—and I am answering your question slightly differently—is that it is a big thing on our agenda anyway. I would



HOUSE OF COMMONS

see that only improving because you are right: Sainsbury's has long had an excellent track record of those dealings, and I would see that only giving more impetus and pressure to continue what we are doing.

Q112 **Alan Brown:** Timing is everything. This coming Monday, the new results are out for 2018, so are you saying that you are really confident that there will be a marked increase in Asda's performance?

Roger Burnley: I think we will see an improvement in our performance. It is a never-ending journey and we still have work to do, but we are very committed to doing it. We have worked very closely with the Groceries Code Adjudicator, who has worked with us but held us to account over the last year as we have done the right things.

Q113 **Alan Brown:** I mentioned Sainsbury's, because Sainsbury's is pertinent with the merger, but the real benchmark is how Aldi has been performing. How far away do you think you are from getting to that level of compliance?

Chair: Are you going to raise your level of standards to Sainsbury's or are you going to reduce them?

Roger Burnley: As I said earlier, Aldi and Lidl are examples of businesses benefiting from volume growth, from being successful, and their supply chain benefiting from that as well. That is exactly what we are seeking to achieve with this combination.

Q114 **Chair:** You are seeking more of a Lidl/Aldi, are you, rather than a Sainsbury's?

Roger Burnley: No.

Q115 **Chair:** That then takes me back to my question that I started off with: you are incompatible.

Roger Burnley: No. The point I was making is that they are examples. They have very different models from us. They typically offer a much smaller and narrower number of lines through which big volumes go. We have a much greater product range for our customers.

Q116 **Chair:** Just on the supply chain, one thing that Lidl and Aldi are very good at is that they pay the farmers and the producers quite a good price, take less out for their retail marketing and then sell it to the customer at a better price. This is what I am trying to drill down on: is that the model that you are looking forward to? That is definitely not Sainsbury's model, so, in the marriage that you have had no discussions about, are you two compatible?

Roger Burnley: I say again that those retailers operate different models and are very successful. I give them as examples of, first, how competitive the market now is and, secondly, how everybody benefits through the supply chain when a retailer is doing the right thing for its customers and growing as a result. That is what this combination is ultimately about.



HOUSE OF COMMONS

Q117 **Chair:** You can reassure us again that you are going to give a good price to the producer of British product wherever possible. We know you are not going to buy all British, but would you like to say that for the record?

Roger Burnley: I would reassure you, on record, that we will continue to be British and would aspire to be more British, wherever that means that we can offer good value to our customers and give our customers what they want.

Chair: That just means you will buy at the cheapest price, so I am not taking that one away. Alan, do you have any last questions? We must bring Sainsbury's in. I would not like them to miss out on the opportunity.

Q118 **Alan Brown:** Timing is everything, but it would be good, once the 2018 survey results come out, if we can get an explanation of the improvements you made, assuming there are improved results, and what else Asda is going to be doing to continue to move forward.

Roger Burnley: I understand and I am happy to submit that in writing, after seeing those results.

Q119 **John Grogan:** I got half a degree in economics many years ago; I got the other half in history, I hasten to add. The way I understand it, a lot of your argument is that you are rejecting the fact that this is going to be a duopoly. You say it is a much smaller market share. All the conventional grocery figures suggest it is going to be 32%. If it is not going to be Boots, who is included in what you want us to include, but not included in the conventional shares that everyone else looks at?

Roger Burnley: I am happy to put that in writing after the meeting. Take, for example B&M and Home Bargains. There are lots of other people now—

Q120 **John Grogan:** This is the grocery share that we are talking about, is it not?

Roger Burnley: Those people are selling grocery food, so the market definition is widening and widening. That is before, as I say, you come to other players. Who would have thought, even five years ago, we would be competing with a taxi business for your food tonight? But we are, with Uber. I understand the point, and we will submit in writing the difference between the different definitions of market share, but why we strongly recognise a much wider market than the one historically viewed.

Q121 **John Grogan:** But it is definitely not Boots.

Roger Burnley: I will commit in writing, but I am 99% sure that Boots is not in that wider definition.

Q122 **John Grogan:** You have a long career. Who better to do this, from your point of view? You were at Asda, as I understand it, then at Sainsbury's, and then back to Asda.



HOUSE OF COMMONS

Roger Burnley: Correct.

Q123 **John Grogan:** Mr Coupe gave you a very generous tribute when you were leaving. Are you friends with Mr Coupe?

Roger Burnley: No. I have worked with Mike for a long time. We have known each for a long time. We are not friends outside work.

Q124 **John Grogan:** Who suggested the merger first, and when did they suggest it? Was it you or Mr Coupe?

Roger Burnley: It was not me; it was Mike. I will let him answer that. I found out about this proposal at the start of last October, so I had been at Asda some time. It was before I became chief executive and I was more excited about becoming chief executive as a result, but it was way after I had already moved to Asda, if that is the thrust of your question.

Q125 **John Grogan:** How did you find out?

Roger Burnley: With Walmart.

Q126 **John Grogan:** I see. They told everybody what was happening. Have you come across a Mr Mark Menzies, who is the hon. Member for Fylde? He had a long and distinguished record at Asda.

Christopher Brown: I remember him.

Q127 **John Grogan:** You remember him. I beat him in an election as well once, but he went on to have a much better career and is a rising star, which I am certainly not. He was talking to the Minister and, in the House, he said, "The Minister cannot provide assurances about the future of the head office". He worked in the head office. "Indeed, I do not believe that it will be there in a few years' time. I urge the Minister please not to view this as a merger. It is not a merger: it is a takeover by Sainsbury's". "I urge the Minister to focus on the jobs in distribution centres, many of which are in working areas of the country. If this measure goes ahead, the distribution centres will be absolutely hammered a year or two down the line". With friends like these—

Roger Burnley: There are two things there. First of all, on the head office, we have been unequivocal and I will be absolutely unequivocal: we will keep our separate head offices. Asda's base will absolutely be in Yorkshire. We are proud of our Yorkshire heritage. We are currently in Leeds. There is a little bit of noise around that, by the small matter that HS2, if it goes ahead as planned, comes through a corner of our building. We have been talking for a long time about what we do about that and where we relocate as a result of HS2 coming through the building. Unfortunately, those two stories have kind of come together, so that is one on which I give absolute reassurance.

Secondly, from a distribution perspective, the overriding thing I would say is that UK grocery logistics is the best in the world. We are all extremely efficient, and Asda and Sainsbury's logistics are very efficient



HOUSE OF COMMONS

too. We cannot magically distribute twice as many cases through a distribution centre; otherwise, we would be doing it now. In total terms, this is about more volume going through our distribution channels and, because you have two distribution centres close together and you have every vehicle to still go to every store to deliver every case, in terms of the ability to take big synergies there from closing one of them, it is hard to get your head round how we would ever possibly do that. If we could, frankly we would be even more efficient and we would be doing it now.

Q128 John Grogan: Another commitment you have given is that you do not intend to close stores, but it is possible. I am from Keighley, and we have both. We can see that they are there, and it must be possible that one of the remedies—not that you are looking for this remedy, but say the CMA passes it but is rather more inclined to the conventional grocery figures than you are—is for it to say, “Get rid of a few”.

Roger Burnley: Yes, that is possible, and we do not want to speculate on that. We strongly want both brands to continue being open on every single site. Keighley got a lot of coverage the very next morning because of the exact point you make.

Q129 John Grogan: In how many towns are there the two, do you know?

Roger Burnley: I do not want to speculate on the overall number—

Chair: You have not done the detailed work, but I think you might know this.

Q130 John Grogan: How many towns are both Sainsbury’s and Asda in?

Chair: I think you know the answer to this question.

John Grogan: How many towns have a Sainsbury’s and an Asda?

Chair: I think you have worked out how many towns have Sainsbury’s and Asda.

Roger Burnley: I don’t know, off the top of my head.

Q131 Chair: You cannot come here and tell us you do not have those figures. Come on, please.

Roger Burnley: Can I just come back to the point I was going to make on Keighley? While I would not wish speculation on either set of colleagues, I was quite pleased to see that that is where the media camped out. It rather makes the point. Yes, we are pretty much side by side, but there is Morrisons, there is Tesco, there is Aldi and there is the local supermarket.

Q132 John Grogan: It is following that logic. However many towns there are—we do not know how many there; there might be 10, there might be 50 or there might be 70—who is going to buy the one that is disposed of, given that, in Keighley, they are all there anyway? Who is going to buy it?



Roger Burnley: That is not something we will speculate on.

Q133 **John Grogan:** If you are in Keighley, why should we support this merger? The risk is that we lose one of our stores; there is no one to buy it. You will say, "It's nothing to do with us, guv. We had to sell it with the evil CMA". From the point of view of those towns—and we do not know how many there are, but there is more than one; there might be 50 or there might be 20—on a precautionary principle, we are bound to write in to the CMA and say, "It is not worth taking the risk".

Roger Burnley: We are side by side in Keighley, where both stores are visible, but there are lots of those towns where everybody is there in a square mile.

Q134 **John Grogan:** Yes, so no one will buy it, because they are already there.

Roger Burnley: That is not something we want to speculate on. We will work with the CMA, of course, and if the CMA is going to propose remedies in certain markets we will understand and work that through, but we will not speculate.

Q135 **John Grogan:** Very quickly, we had better mention the workers before we finish. Something in the retail press last week said Asda workers are paid a bit less than Sainsbury's. It could be £100 million if you were going to put the two together and pay Asda workers the same as Sainsbury's. It is quite a lot of money. There will be pressure from the trade unions, perhaps legitimate pressure. Why should they not get the same?

Roger Burnley: We are two separate brands. There is not an automatic read-through that we would have the same terms.

Q136 **Chair:** Wages go up or wages go down—what do they do?

Roger Burnley: There is not an automatic read-through that we would have the same terms and conditions. We are on a journey anyway, so we have our latest contract, around which we have been in discussion with the unions and with our colleagues for the last 18 months. There is not a direct read-through, but you can imagine that that might—

John Grogan: I have two final questions.

Angela Smith: That might what?

Roger Burnley: There is not a direct read-through.

Chair: I am mindful of time now, so a short answer, please.

Roger Burnley: We have elements of our contract that are important to how we do business. We have high volumes, so we have night shifts in a lot more stores in our model, for example. I would fully acknowledge that I cannot envisage a world in the future where there is a vast disparity between those two sets of terms and conditions, but that is something we



HOUSE OF COMMONS

deal with and will continue to deal with, and we are competitors at the moment in a different environment.

Q137 **John Grogan:** I have two final questions, and I am sorry if they are little bit personal. In terms of corporate governance, very soon, everyone in the top companies is going to have to say what the difference is between the CEO and the median employee. What is it in Asda?

Roger Burnley: My salary is not in the public domain, but I am happy to say that my basic salary to the median basic salary is a 1:35 relationship. In total package terms, it is a 1:121 relationship.

Q138 **John Grogan:** As a final question, if this merger goes ahead, will it benefit you financially in any way personally?

Roger Burnley: Part of my package is a bonus, which can vary between 0% and 155% of my salary. That is based on performance criteria. It might be that Walmart, which sets those criteria, decides that it would like one of those criteria within that mix to be the merger being successful, but there is nothing at the moment.

Q139 **John Grogan:** It is potentially 155%.

Roger Burnley: No, these are many measures across things, ranging from availability to profit, sales and our ethics and compliance. It is not beyond the wit of man that they would want part of that incentive to be that the merger happens successfully, but that is for them to address and they have not addressed it.

Q140 **John Grogan:** They have not discussed it and they have not addressed it yet.

Roger Burnley: No.

Q141 **Chair:** I have one final question and then you can go. You told us that you employed very good consultants who have looked at the CMA and the situation regarding the merger. You paid these people good money and they have not told you how many towns there are across the country where there is just an Asda and a Sainsbury's. It is absolutely obvious where the CMA will go, if it accepts the deal. There will have to be competition within those towns, not just you two that have merged. You told me quite frankly this morning that you do not know how many towns there are where there is just a Sainsbury's and an Asda. I want a yes or a no, please.

Roger Burnley: I do not have the number to hand, and I am happy to submit it after the meeting.

Q142 **Chair:** Would you accept that you have those figures?

Roger Burnley: Yes. They are on public record.

Chair: That is fine. Thank you, gentlemen, very much. We will call Sainsbury's now.

Roger Burnley: Thank you.

Examination of Witnesses

Witnesses: Mike Coupe and Judith Batchelar.

Q143 **Chair:** Good morning. Would you, Mike, like to introduce yourself, and then Judith? Thank you very much for coming this morning to our session.

Mike Coupe: My name is Mike Coupe and I am the group chief executive for Sainsbury's plc.

Judith Batchelar: My name is Judith Batchelar. I am director of Sainsbury's brand. That means I look after our sourcing standards, product innovation and sustainability. For the record, I also co-chair the Government's agri-food tech council.

Q144 **Chair:** Thank you very much. I would like to thank you very much for coming. As you probably saw this morning, in the first evidence session, we are particularly concerned about suppliers and those supplying into the market, because of your 10% saving and where it is going to come from. You have sent us a written submission stating that standing still is not an option. What would happen to Sainsbury's if the merger was not cleared by the Competition and Markets Authority? You must have that in mind.

Mike Coupe: If I can just paint a context for the UK retail market, as has already been discussed, it is going through a period of profound change. You can read about that in the newspapers virtually every day. Those changes are driven by several factors: first, significant increases in cost, particularly, cost of labour and cost of taxation; secondly, cyclical changes caused by economic pressure, so customers having less money in their pockets, leading to a squeeze on retail; thirdly and most profoundly, changes in the way that customers shop.

Customers have more choice, in not just grocery retailing but retailing more generally, than they have ever had. One example that was talked about earlier was Amazon and Amazon's ability to innovate. To put it in context, Amazon is a company that is 100 times the size of Sainsbury's in its market capitalisation. That is a very big and profound competitor, which brings enormous resource to the UK market. That is a company that Sainsbury's will have to compete with in the future, and that will make a dramatic difference to this market. That is the first thing.

Q145 **Chair:** Are you happy that, if the merger does not go ahead, you as Sainsbury's can survive?



HOUSE OF COMMONS

Mike Coupe: I believe the business is in a position where, of course, it can survive, but my job is to recognise that the market is changing, and changing very rapidly. My job is to secure the future of the currently 185,000 employees and around about 100,000 pension-holders. We believe that, by bringing these businesses together—

Q146 **Chair:** The deal is all about saving Sainsbury's and saving the pension fund.

Mike Coupe: I did not say that. I said part of my job—

Q147 **Chair:** You did. You came to meet me privately, where you mentioned the pension fund three times. The deal is not about your pension fund. As much as I have great sympathy for your pension fund, the deal was about, first, whether the consumers are going to get a deal and, secondly, whether those supplying you after the new Asda merger, if it is allowed, are also going to get a good deal. It is not about your pension fund. It is not about you. It is not.

Mike Coupe: Going back to the picture, retail is becoming increasingly competitive. If you look at grocery retail or food retail, and you think about the way that customers are shopping and how people are acquiring their calories, that again is changing very profoundly.

Q148 **Chair:** Why do we have to have a Sainsbury's model of a supermarket? Why can we not have an Asda-Lidl in a bigger version, so that they can pay a good price to the supplier, the consumers pay lower prices, and there is totally different model of delivering that service? Why is it that Sainsbury's, your pension fund and everything are so important? You ask everybody else across the world to change; perhaps you should change.

Mike Coupe: Again, to paint the contextual picture, companies like Aldi and Lidl are many times the size of Sainsbury's. They are global organisations with global supply chains and global resources. These are our competitors in the future.

Q149 **Chair:** Yes, but they also have a different model. You can accept that.

Mike Coupe: They have a different model. They sell fewer products.

Q150 **Chair:** They also take less money out of the price. They take a smaller percentage from when they buy to when they sell. You take a larger percentage. That is why I am asking you this: why is it that your model is so important to be retained? In a minute, as we move out of the common agricultural policy and payments to farmers, they will all have to be more competitive. I suggest to you that you need to be more competitive. The value of your company is largely the same as it was back in 1996. Sainsbury's has gone nowhere, really, very quickly.

Mike Coupe: Yes, and I would be the first to agree we have to be more competitive, and we are doing lots of things within our business to make us more competitive. I come back to the overall big picture, which is that Lidl and Aldi are very large, global-scale players. They have an economy



HOUSE OF COMMONS

of scale that Sainsbury's alone cannot enjoy. They are also companies that sell a much smaller and more restricted range of products. If you want to talk more broadly about the supplier and the farmer base, the point I make to you is this: if you want to wake up one day in a world that is 100% Aldi, that would be around 2,000 products.

Q151 Chair: Most of those are probably supplied by British farmers, so I am not really too concerned. I am sorry; I am not concerned about your model and your pension fund. You have to sort that out yourselves. If your pension fund has a problem, that has happened in the past; it has not happened now. This is why I am trying to get to grips with it. Furthermore, like I said, we will get more questions in a minute about the new model. I will ask you now: is Asda a natural bedfellow for you? I am not convinced that it is, because it has a different model.

Mike Coupe: Going back to the big picture, the world of retail is changing, and changing very rapidly. We want to secure our business's future and, by bringing Asda together with Sainsbury's, we think we will create a UK-based organisation that employs 300,000 people. We think that will be good for customers because we believe that we will be able to lower the prices of everyday items. We believe it will be good for suppliers, and I have had lots of suppliers talking to me about the benefits that they see. They see the benefits of working with a UK-based company, a company like Sainsbury's, which has a reputation for adhering to the highest standards not just within the UK but in the world. We are at the leading edge of driving standards within British sourcing. We work very closely with our supply base.

Q152 Chair: You do, but in order to save the magical 10% on this—I promised Kerry I would not go too far into this one, so I must be careful—the buying model that you will have in a minute is going to be an Asda buying model; it is not going to be a Sainsbury's buying model. I just do not buy this business that you are going to merge but you are all going to stay separate. Don't bother to merge, then, in that case. We have been having lots of Mickey Mouse figures and things this morning, so this is what I am trying to get to grips with.

Mike Coupe: Our top 50 suppliers account for 55% of our turnover. Our top 150 suppliers account for 78% of our turnover. Our smallest 800 suppliers account for less than 1% of our turnover. You talked about Weetabix. Weetabix is owned by an American corporation called Post Holdings Inc. Weetabix makes 20p in the pound profit, and we do not think it is an unreasonable question to ask Weetabix to take the buying price that is currently paid by Sainsbury's or Asda, and make it the same for both companies. We would seek to pass that benefit on.

Q153 Angela Smith: How can you guarantee that Weetabix will not then put pressure on its supply chain, particularly with cereals?

Mike Coupe: The example we have given has already been responded to. Wheat is a world market; it is a global market. The price of wheat is



HOUSE OF COMMONS

set by a world market, not by Weetabix or Sainsbury's. The example cited in Lord Haskins's article this morning illustrates how world markets work in many of these commodities. I would come back to the same fundamental point.

Angela Smith: We need to get a response from Weetabix on that.

- Q154 **Chair:** You raised the Weetabix argument. Tesco is now at 27% or 28% of the market. As for you and Asda, we have had various figures this morning, and I will ask you a bit more in a minute about the percentage of grocery trade you have between you. Why is it that this merger will suddenly put that much extra pressure on Weetabix? Tesco, surely, has that market share already. Does it extract that much better a deal? I do not think it does. It is not believable that it is only the big suppliers and, when you combine, they are all going to bow down in front of the great Sainsbury's-Asda because you have that extra clout that you did not have before. Tesco already has that, and you are going to take on the Nestlé's of this world. You are going to take on everybody, as you told me before. No, you are not, because they are bigger than you and they are bigger than your combined operation will be. There is a player out there just as big as you both are going to be, so this is not true.

Mike Coupe: The deal is predicated, as has already been discussed, on a very simple idea. Weetabix is a good example: if we are buying Weetabix at one price and Asda is buying Weetabix at a different price, whichever of those is the lower price we would expect to achieve as the new combined entity.

- Q155 **Chair:** For the record, then, your model of buying will be the cheapest model of buying. Therefore, if it is an Asda price that is the cheaper one, which it is more likely to be, it will be that Asda model that you use, not the Sainsbury's model.

Mike Coupe: I go back to the fact that it is the large, branded manufacturers. There are 150 suppliers that account for 78% of our turnover.

- Q156 **Chair:** You are not going to tackle your smaller suppliers. I want this for the record: it is only going to be the big international names that you target, so if there are other suppliers, of carrots or anything else, where the Asda price is lower than Sainsbury's is paying, you are going to pay the Sainsbury's price and you are not going to pay the Asda price. I would like that on record, please.

Mike Coupe: I will pass over to Judith in a second, but let me just make one point.

- Q157 **Chair:** No, I want that on record. I do not want anything else at the moment. I just want that on record. Judith, please.

Mike Coupe: I would just like to make a point.

Chair: No, I want to ask Judith, please.



HOUSE OF COMMONS

Mike Coupe: We have 1,600 suppliers.

Q158 **Chair:** I do not want any more about the number of suppliers. We have had too many figures this morning that do not add up. I just want an answer. When the merger comes, which pricing model, not only for international suppliers, but for local suppliers and smaller ones, will you use? Judith is going to tell me.

Mike Coupe: We have 1600 suppliers.

Chair: Judith is going to tell me.

Mike Coupe: We have 1,600 suppliers. The smallest 1,000 suppliers are the same size as our largest supplier.

Q159 **Chair:** Mr Coupe, you cannot hand the question over to Judith and then answer it yourself. Judith, please, would you answer the question?

Judith Batchelar: I was going to say something different, actually, because we are looking at very different models. When you talk about the buying model, there is probably no such thing as a generic buying model, because it varies dramatically. You used the example of dairy earlier on where we have a price we pay, but the model is the cost of production, plus the profit, plus the—

Q160 **Chair:** That's right. It is very good when it comes to a lower market because you recognise the cost of production, and that is why I would not like to lose it. Like I said, I would like on record today that you will carry on with that system and you will not go to an Asda system.

Judith Batchelar: Our plan is to continue with our dairy farmers in that system.

Q161 **Chair:** You plan to continue. We have that reassurance this morning, do we?

Judith Batchelar: In our cost of production model, we have a commitment to those, and that goes to the earlier point about longer-term contracts.

Q162 **Chair:** Please, is it a commitment to carry on the cost of production-plus system that you have or not? Is it a yes or is it a no?

Mike Coupe: Can I make a point? We would aim to raise the standards of the new company to the high standards achieved by both of those organisations, and I will make that commitment today.

Q163 **Chair:** That is not answering my question, because raising the standard is not keeping the price the same, and therefore I need an answer to my question. You have a buying system in milk that recognises the cost of production. Do you give us the assurance this morning that, in the merger deal, several months and years down the road, you will retain this system?



HOUSE OF COMMONS

Judith Batchelar: We plan to retain the system for our farmers. I do not know enough about how the Asda system works.

Q164 **Chair:** I am sorry to laugh, but this morning we had this nursery rhyme and Mickey Mouse tale that you do not know how the Asda system works and they do not know how your systems work. You are getting into bed together, you are going to make all these savings and you do not know how each other work. I am sorry, this is a massive deal across the City, and huge sums of money are involved and you do not know how each other's systems work. I am sorry. It is just not believable, is it?

Judith Batchelar: The example from the milk perspective is that we operate a segregated—

Q165 **Chair:** You heard this morning from them that they buy straight from Arla. It is a market price and they have a deal with Arla. It is not too difficult to work out what Asda is doing in this instance. Neither of you knows how the other does business. It is amazing, really, for two massive retailers.

Judith Batchelar: They pay a premium, and we are not aware of the detail of that premium and how that premium is allocated. Our farmers get their cost of production plus a profit, but we spend a great deal of time and effort collecting data, which gives, scored on a matrix for animal welfare, health and environmental outcomes, the opportunity for a bonus. I believe they have something similar, but I do not know what that looks like. Under our scheme, they can score a maximum of 100 points.

Chair: I like your scheme. That is not the problem. It is whether it is going to be retained that we are trying to get to grips with, and whether it is going to go to an Asda system that is cheaper to buy, because you are going to pay a higher price for everything and you are going to sell it for cheaper. I am very intrigued by how this works.

Q166 **Angela Smith:** On this issue of savings, accepting for a moment that you cannot stand still and you have to move forward—

Chair: Don't steal all of Kerry's questions.

Angela Smith: No, I am not talking about suppliers. There was a £974 million combined deficit in the pension fund in March 2017, a gap that has more than doubled after the takeover of Argos in 2016. I know that you are in talks with the Pensions Regulator, and I know that Frank Field had a go at this in the Work and Pensions Committee, but we need some commitments. I will not say your staff are very low-paid, because you will pick me up on that, but let us face it: staff on your checkouts are not the highest-paid people in the economy. How can you guarantee that those staff will not lose out on their pensions as a result of this merger? Parliament will be looking for that commitment.

Mike Coupe: Absolutely, it is a 100% commitment. As a result of this merger, two things will happen. First, the Asda pension scheme will



HOUSE OF COMMONS

remain with Walmart, the world's largest retailer. That makes it very secure for the future. The Sainsbury's pension scheme will become part of a new, stronger entity, and therefore secure the pensions of people through decades. Going back to the point about securing the future for this business, we will be paying people pensions in 2080. It is very important that the future of this business is secured.

Q167 **Chair:** Why do you have a deficit already? Does Asda have lots of money that it is going to suddenly contribute to the pension fund?

Mike Coupe: Pension accounting is a very complex thing.

Q168 **Chair:** However complex it is, I can work out whether a pension fund is in deficit or in surplus. You do not have to be Einstein to work that out. Don't come here trying to complicate things when we are trying to get to the bottom of what is happening. Why is your pension fund in deficit and what is this Asda deal going to do for your pension fund? You raised the pension fund.

Mike Coupe: I would just emphasise again that the Asda pension fund will stay with Walmart, the world's largest retailer. Sainsbury's pension fund deficit is £257 million, off the top of my head, and the company is committed to that pension deficit. The new entity will create a stronger covenant and a stronger backing for that.

Q169 **Angela Smith:** Will the Sainsbury's pension scheme, including the Argos pension scheme, be rolled in with the Walmart scheme?

Mike Coupe: No, the Sainsbury's pension scheme has already been combined with the Argos pension scheme and will stay with the new company.

Angela Smith: Where is the benefit? You said Walmart is one of the biggest companies in the world, which begs the question of why Asda wants to go ahead with the merger, if it is part of one of the biggest companies in the world, on your modelling.

Chair: You are going to be two separate companies.

Q170 **Angela Smith:** Leaving that to one side, you argued that being merged with one of the biggest companies in the world will benefit your pension fund recipients? How, if they are going to be separate?

Mike Coupe: It secures the company for the future and, as I say, we will be paying pensions in 2080. That is the long tail of our pension scheme.

Q171 **Angela Smith:** The terms and conditions on the scheme will not change.

Mike Coupe: They will not change and, indeed, as a result of bringing Argos together with Sainsbury's, that would have secured the pension rights of the Argos employees, so the company will be in a very strong financial position to make sure it can meet its pension obligations.

Q172 **Angela Smith:** At the moment, you are consulting with staff. Up to



HOUSE OF COMMONS

9,000 long-standing staff are set to lose up to £3,000 per year under the guise of an increase in basic pay. To do that, you are scrapping the Sunday premium, getting rid of paid breaks and shortening the night shift.

Member of the Public: Thank you so much. I am a shop worker. Do you know what it is like to have no break?

Chair: Thank you for that contribution. Please do not make any more. You are not really supposed to, but I accept it in these circumstances.

Angela Smith: You just saw a very emotional response. I am really worried about your staff. I know they work hard. I use Sainsbury's. I know they work really hard. You are already trying to cut the terms and conditions and effectively the wages of your staff. What impact is the merger going to have? Are you going to try to cut them even further after that? It looks to me as though it is your staff who are having to pay the price for your merger, potentially.

Mike Coupe: I would be the first to recognise the brilliant job that our colleagues do, the 185,000 people who work for Sainsbury's today. I would also stand by my track record over the last four years of increasing our base rate of pay from £7.08 to £9.20 an hour. That is the equivalent of giving a pay rise of £4,000 a year for a full-time worker. We have a contractual situation currently that is complex and dates back many, many decades. We have proposed to our colleagues that we amend our terms and conditions in conjunction with giving them a pay rise, which makes it simple, transparent and fair. We currently have a situation where we can have colleagues working side by side being paid a fundamentally different rate of pay. We just think that is unfair.

Q173 **Angela Smith:** That is because you have Argos staff and Sainsbury's staff side by side.

Mike Coupe: As a result of the proposal that we are making—nothing to do with the transaction—93% of the people who work for us will be better off, and on average our colleagues will be better off by 9.3%. We will protect those who are worse off for the next 18 months. We will have another pay review by the time we get to the 18 months, and at that point we will see where we stand in terms of the number of people affected.

Q174 **Angela Smith:** The union has a different perspective but, anyway, what guarantee do we have or can we get from you? This all seems to result from the merger with Argos. How can we be sure that it will not happen again if you merge with Asda: that we will not have another round of cuts in wages?

Chair: It is almost like the banks again, really.

Mike Coupe: If you take the case of Argos, Argos colleagues under the age of 25 were being paid less than colleagues above the age of 25. One



HOUSE OF COMMONS

of the first things I did was to equalise those rates of pay. That resulted in a substantial increase in the rate of pay.

Q175 **Angela Smith:** What guarantee can you give us that you are not going to do the same again if you merge with Asda?

Mike Coupe: What has happened in the last four years under my leadership is a massive increase in the wages of our colleagues, by 30%. The base rate of pay in Sainsbury's has gone up from £7.08 to £9.20. There is no retailer in the UK that has got anywhere near that. Sainsbury's will be the best retail payer in the market as a result of the changes that I have made.

Q176 **Chair:** You will be after the merger as well, will you? Can you give us that assurance?

Mike Coupe: Absolutely. I genuinely stand by my track record. Nobody in retail has done as much as I have done to move forward our colleagues' wages.

Q177 **Angela Smith:** We will have to agree to differ on this, but I still do not get the sense of a commitment to protecting your staff in the context of a merger with Asda. Finally, on this point about Asda being part of one of the largest companies in the world, we have had an intimation that Walmart is looking for an elegant exit from the market. You heard the answer that Asda gave to that. A lot of what you are trying to achieve seems to be predicated on Walmart staying in the game. Are you confident that it is going to stay in the game?

Mike Coupe: That is a question for Walmart to answer, and Roger has already attempted that. If I look at the commitment that Walmart has made, it will own 42% of the economic interest and 29.9% of the shares, and it currently within the agreement has a four-year retention period for that 29.9% of the shares.

They have said on the record that they are committed to the UK market. They believe it to be a good investment for them. They will have two seats on the board of the new UK-based plc. By the way, it is one of the largest tax-paying companies in the UK. Again, it is very transparent and UK-regulated. A very important part of this transaction is the ability for this kind of committee to scrutinise that company and its future behaviour. Again, it is very important that this Committee should recognise that we will be creating a UK-based entity, employing 130,000 people, competing with the likes of Amazon, which is, going back to the relative size, 100 times our current market valuation. It is very important to think about the deal in that context.

Q178 **Angela Smith:** If Walmart does pull out of the UK market, what would potentially be the impact on the new merged company, Asda-Sainsbury's, in terms of its financial position and particularly in relation to its pension funds?



HOUSE OF COMMONS

Mike Coupe: It would make no difference to the new merged entity, because it would be a shareholder. Like any other shareholder, it would have the right to buy or sell shares.

Q179 **Angela Smith:** What about the pension funds?

Mike Coupe: The pension fund for Asda would be secured by Walmart and Walmart's backing, and the pension fund for Sainsbury's would be backed by an entity that would be, for the sake of this argument, somewhere between three-quarters and twice the size it currently is.

Q180 **Chair:** There are no funds being transferred from Walmart to Sainsbury's as far as the pension fund is concerned.

Mike Coupe: No, quite the opposite.

Q181 **Chair:** The pension fund, which was raised in the second sentence you said when you came into this room, is not relevant.

Mike Coupe: We wrote back to Mr Field as a result of his letter and we have not had any response, so I can only assume that our response gave him the reassurance that he needed around the security of the pension fund in the future.

Q182 **Chair:** We have lots more questions. You reckon that this merged supermarket is going to be very powerful and drive down the big names in retail, so that you are going to get this special deal. How big actually is it? I have a figure of 30% with the two combined supermarkets. I was told by Asda just now that it was 25%, so where is it? I know you have not had discussions; you have all gone into this, in a great blind marriage where nobody knows anything about anybody and, like I said, I live in cloud cuckoo land. What is the situation? What do you believe to be the percentage of the retail market that the combined two of you have together? This must be part of the idea of bringing you together.

Mike Coupe: Going back to the market context, first of all, the boundaries between conventional grocery retailing and food consumption out of home are increasingly blurring. I do not know if anybody has used Just Eat.

Q183 **Chair:** I do not want loads and loads of explanations. I want an answer to the question. What percentage do you believe the combined two supermarkets have of the grocery trade in this country? That is the question, not a load of baloney about this, that and the other. What is the answer to my question—a straight answer, please?

Mike Coupe: The answer has already been given. It is 25% of the market.

Q184 **Chair:** It is not 30%. The figures we have here, which say that it is 30%, fifteen-point-something percent for each of you, are plainly wrong and your figures are plainly right. Is that what you are saying?



HOUSE OF COMMONS

Mike Coupe: I would say that the definition of the market that you have is narrower than the definition that we have. It is as straightforward as that.

Chair: I thought I was the politician and not you, but obviously I am mistaken.

Mike Coupe: I would be very happy to make the same commitment that Mr Burnley has made.

Q185 **Chair:** You are on record to say that the percentage of the combined market is 25%.

Mike Coupe: For instance, Marks & Spencer Food is not included in the combined market share.

Q186 **Chair:** I do not want any "for instance". I want clarification for the record that you maintain that your joint share now would be 25% of the market.

Mike Coupe: Yes.

Q187 **Chair:** Fine. We will get this checked and see who is right. You obviously will not be as big as Tesco. Therefore, your argument that you are the biggest beast in the jungle and you can get the best prices has rather fallen apart, because you are not as big in the jungle as you have been telling the City. None of it stacks up, because in the end you will not, I suspect, make the 10% saving, but you certainly will not make it from these great big names, because you are not the biggest beast in the jungle, are you?

Mike Coupe: I disagree. I go back to the fundamental premise, which is that we will take the buying price that Asda enjoys and the buying price that Sainsbury's enjoys, and we will seek to achieve the lowest of those two prices.

Q188 **Chair:** I am sure you have done this much: you must have looked at who buys what and what they pay for it. The majority of the prices that are 10% lower, or are lower, would be the Asda model, not the Sainsbury's model.

Mike Coupe: We have no idea.

Chair: You have no idea.

Mike Coupe: Let me describe the process to you. We have put our prices to an independent third party, blind. They have then looked at the buying prices of each of the companies and they have given us a total number. We do not know who buys better. We just know there is a difference.

Q189 **Chair:** We will leave it there, because I do not believe it.

Mike Coupe: Sorry, it is a matter of fact.

Q190 **Chair:** Did Sainsbury's have any formal or informal discussions with the



HOUSE OF COMMONS

CMA before the merger was announced?

Mike Coupe: No.

Q191 **Chair:** No, but you did employ these fancy consultants to do the work for you, did you?

Mike Coupe: We employed lawyers and economists, who used the models that the CMA has used in the past.

Q192 **Chair:** They did not have any direct discussion with anybody involved with the CMA, on record.

Mike Coupe: They may have clarified how the models have been used in the past but without any specific reference to this deal.

Q193 **Chair:** They may have clarified certain things. Therefore they did have discussions with the CMA, albeit informally.

Mike Coupe: Not in the context of this deal.

Q194 **Chair:** Okay, that is on record. It has been suggested that the merger would lower prices, as we started to talk about, by 10%, and we discussed with Asda that most of these products are bread, milk and cheese, all the sorts of products that our farmers produce in this country and are processed in this country. When you save this 10%, you are not going to save it from those producers that are producing for you.

Mike Coupe: I would go back to the construct I have already described. The top 150 suppliers are largely multinational and very profitable suppliers. Very few of them are in the UK at all. Of our top 50 suppliers, only four suppliers are UK companies.

Q195 **Chair:** Where do you buy your milk, bread, cheese and butter, all staple things that people go into shops for?

Mike Coupe: We buy those from the UK, but a substantial amount of our business comes from—

Q196 **Chair:** You buy them in the UK. That is fine. These are the products that you want to sell for 10% cheaper when you have your combined supermarket. Therefore, it is not this massive number of suppliers across the world. It is suppliers in this country.

Judith Batchelar: It is important to understand, and this came out when we had a lot of discussions early on with our dairy farmers, that we disaggregate the price we pay from the price that we charge customers. The investment in price is about being competitive, and therefore that investment in price may need to move around the large portfolio of products that we sell. The savings that we make in one part of the business would be invested in another part of the business, either in price, in quality or, indeed, in innovation or research. That is the first point.



HOUSE OF COMMONS

If we lower the price of milk, it does nothing to the price that we pay our dairy farmers for the milk, because they have a three-year contract and it is on a different model. Those models vary by value chain, but the fact that we operate a mixed-margin business means that we do not buy a product, add a margin to it and then sell it at another price.

Q197 **Chair:** You are selling at a higher price at the moment so, in order to get your 10% reduction, somebody is going to have to pay for it. That is where we are not entirely stupid. I think both you and Asda are playing us for fools. We are not fools, and money has to be saved somewhere. You might have a supplier or processor that will save a few miles down the road. That might save 1% or 2%, but it does not save 10% and you well know that. I do not want that answer again, please.

Judith Batchelar: That is not where the savings are coming from to invest in that price. That is what Mike was trying to say. The premise of the deal has been us buying those big, branded products that everybody sells at the best of both prices, and not even looking at that smaller tail of suppliers, because they are disproportionately important to us in other ways. If you look over the last five years, to 2015, most of the growth in some of those mature areas of our business—things like snacks, confectionary and soft drinks, for example—has come from small, innovative companies. In that five-year period, there were 5,500 start-ups that drove innovation and drove incremental sales.

Q198 **Chair:** It is no good giving us this. You are giving us facts and figures about your present model. When you combine the two models together, you are going to make a 10% saving. I am sorry to keep repeating this, but I am not getting an adequate answer because in the end someone has to pay for it. Your present model is fine but your future model will be based on an Asda pricing structure, because that is the only way you can get your 10% savings. We have taken quite a lot of expert advice on this and I actually believe them. That is where the whole thing does not add up.

I have one final thing. Have Asda and you, Sainsbury's, used a third party to compare prices currently paid to you by suppliers?

Mike Coupe: If I understand the question correctly, both of us have supplied our buying prices to an independent third party, so the cost prices that we pay to suppliers. They have compared those. Some are straightforward to compare. Coca-Cola is Coca-Cola; you can make a direct match. They have added up the differences and we know, therefore, what the total number is.

Q199 **Chair:** You have. The answer to that is yes.

Mike Coupe: Yes.

Q200 **Chair:** When we had our private meeting, you had sent a letter to your suppliers and I was very interested to see it. You assured me we would be able to see it, but we never have. I am surprised that that is the case,



HOUSE OF COMMONS

so we will look forward to receiving that, because we need to know what you are saying to your suppliers already, before the CMA has even approved your merger. I feel there is a degree of complacency here, at the very least.

Mike Coupe: We have sent the letter to you. You may not have received it, but I guarantee we sent it through.

Chair: If that is the case, we will look for it. If I have received it, I will apologise to you but I certainly have not seen it. We will check that. You see, we are very keen to see your attitude, especially early on, before the CMA has even made its decision.

Q201 **Julian Sturdy:** Judith, can I come back to the milk analogy? You mentioned that you have a three-year contract with your suppliers. As a first, quick question, is that a rolling contract?

Judith Batchelar: No, it has a finish date, but normally the year before the contract is due to come up we would start those discussions again, so there is never a break in that process.

Q202 **Julian Sturdy:** Some of your suppliers will have just re-signed a three-year contract. Some will be coming to an end.

Judith Batchelar: Sorry. It all happens simultaneously. The reason for that is that we operate a segregated supply chain, and therefore the network planning of the farmers with the logistics and processing is quite key.

Q203 **Julian Sturdy:** Right, so that three-year contract is in place.

Judith Batchelar: It probably has two years to run, or something like that.

Q204 **Julian Sturdy:** Say two years. Two years is guaranteed, which will take us beyond the merger. That is what we are saying.

Judith Batchelar: Yes. The year before the end of that contract, we would start the discussions again.

Q205 **Julian Sturdy:** Sticking with that analogy, to try to understand how this is going to play out with the suppliers, is there any opportunity for that contract to be extended and become a larger contract, so that your model becomes Asda's model? It is not going to drive the savings, but the point is that it has been recognised as a good model for producers and it has got you quite a lot of good publicity in the marketplace. Is it possible for that to be extended and seen as a model that is not only continued within Sainsbury's but continued within Asda?

Judith Batchelar: The answer to that is potentially yes. As I said earlier, I do not know enough about the Asda model and whether it is a milk pool or a segregated value chain. The reason that we want a segregated value chain is that it is important for two reasons. First, when customers buy our milk, and we talk about the price that we pay our farmers being a fair



HOUSE OF COMMONS

price, we want the milk in that bottle to be that farmer's milk, because that is what customers think. When they find out that it is not that milk but just any milk that has gone into a milk pool, that is very disappointing and disingenuous.

Julian Sturdy: I would entirely agree with that.

Judith Batchelar: The other thing is that milk, like a lot of areas, has been really commoditised over the years. One of the opportunities in having a segregated value chain is that you can start to innovate, so you can start to innovate with things like animal feed and look at omega-3 milks, for example. The big one at the moment is night-time milk. It is morning milk that has higher levels of melatonin, and it has a valerian diet. It helps you sleep better, and that has been proved. Those kinds of innovations you can only do if you have a segregated pool. We are very happy with the model.

Q206 **Julian Sturdy:** This is what I am trying to drill down on. It is a model that you are very happy with, and it has got you some very good publicity within that particular area through supporting British agriculture, so there is an opportunity that that might go into Asda. That leads me on, if I may, to the fact that that could mean you would be, as a company in a group, selling milk as a loss leader. You might do that already; I don't know. That might be sensitive information. But there are products that you will sell, as all retailers will sell, as loss leaders to deliver the promotion to get people into your stores to buy other products that you make money on. That is how the model works.

Judith Batchelar: That is exactly what concerned our farmers when we moved to this cost of production model. They did not understand that that is the way the market works. We do not operate a fixed margin or a flat margin policy. We mix the margin across the business in order to be competitive. The thing that they liked about that when we had that conversation was the fact that it is there to protect volume, to take out volatility and to create some kind of longer-term resilience in the marketplace. That was their No. 1 priority, and for them it was more the mechanic.

Q207 **Julian Sturdy:** It gives you security and quality of supply.

Judith Batchelar: They felt the mechanic was of more value than the price we were paying, even though the price we were paying was a fair price.

Q208 **Julian Sturdy:** This leads me back to this 10% saving that has been talked about so much. If this is something that might happen, although I know this is all hypothetical and a lot of what we have talked about is hypothetical, that might mean you need to drive down 20% savings in other areas or other products.

Chair: That is right, because prices will go up, not down.



HOUSE OF COMMONS

Mike Coupe: I want to correct something that has been a theme. We are not looking to lower the cost prices of the goods that we sell across the board by 10%. That is not our objective. It is a much smaller total than that. The money will come from the largest suppliers, the 150 suppliers that account for around 78% of our turnover. That money over there that we save from these large manufacturers, which are hugely profitable and quite often not UK-based PLCs, will get invested in lowering the price of everyday items, things like tinned tomatoes and pasta, even things that are nothing to do with the agricultural industry like detergents and toilet rolls—so a whole bunch of household items.

We are not—and I would emphasise this—seeking to lower the cost price of the goods that we sell by 10%. There are 1,000 suppliers that account for less than 1% of our turnover. Even if they were to give us all the goods for free, it would be in the rounding of this deal. Our largest supplier is the equivalent in turnover of our smallest 1,000 suppliers.

Q209 **Chair:** The public expectation needs to be lowered dramatically, then, from what you were originally saying. The public may have been misled or got the wrong end of the stick. They rather think that price cuts of 10% across the board are going to happen, and you are actually saying that it is going to apply to much fewer products.

Mike Coupe: I have never said that on the record. Nobody has.

Q210 **Chair:** You were going to be in the money, if I remember rightly. How is that going to work?

Mike Coupe: As I said, we will lower the prices of everyday items. It is 18 months in the future. It is a very competitive market. It is impossible to speculate exactly about what those items will be, but they will be the kinds of things that people buy week in, week out, such as tinned tomatoes and pasta.

Q211 **Chair:** They are milk and bread, and we have been through that.

Mike Coupe: Absolutely. We can go through the list.

Chair: You mentioned toilet rolls and things.

Mike Coupe: Detergents are a big part. Again, the grocery market is more than just staple commodities.

Q212 **Julian Sturdy:** I accept that, but all those big multinationals will look to recoup that down their supply chain, and that supply chain in the food industry ultimately ends up at the primary producer. That primary producer might not be in the UK. That primary producer might be somewhere else, but it still ends up at the primary producer, does it not?

Mike Coupe: Again, we believe that those large suppliers will get efficiencies from working with a larger organisation: logistical efficiencies and payment efficiencies.

Q213 **Chair:** Where will they get their savings?



HOUSE OF COMMONS

Mike Coupe: We do think, and I think Mr Burnley said this as well, that you could imagine that the Groceries Supply Code of Practice and Groceries Code Adjudicator could be extended into our supply base, because ultimately we do not control the relationships that, for instance, a Unilever or a Nestlé would have with its primary producers.

Q214 **Chair:** You would support that.

Mike Coupe: Absolutely. It is complex. At the moment the Groceries Code Adjudicator only accounts for 10 large companies.

Chair: That is on record, good.

Mike Coupe: Even the top 200 suppliers would increase the workload quite substantially, but the top 200 suppliers in and of themselves would account for well over 80% of the supply chain.

Chair: She is very worried about her own workload, but we are very keen for that to happen.

Q215 **Julian Sturdy:** This leads on to something else. You talked about the supply chain. I just wondered what your payment terms are for the small suppliers. On Friday in my constituency, for example, I met with a snack supplier who has brought out some new brands and is producing them in Yorkshire, in my constituency, putting them into supermarkets but in regional areas. It is fantastic to hear what they have done and how well they have done it. I do not know this, but how do your payment terms to those small suppliers, which we know are very important for their viability, vary from Asda's?

Mike Coupe: I am one of your constituents from Yorkshire. I would love to know who the supplier was, because we are a massive supporter of small suppliers.

Julian Sturdy: I didn't know that. I can mention it afterwards.

Mike Coupe: We are proud of our track record. We obviously negotiate our payment terms with our suppliers, so we do not have a universal policy, but we have the highest payment rate, as in 97% of our invoices get paid to time. I was talking to the Small Business Commissioner—

Q216 **Chair:** What is the range? Is it 30 days, 60 days, 90 days or 120 days?

Mike Coupe: For some suppliers, it could be tomorrow. For some suppliers, it might be 60 days.

Q217 **Chair:** Is 60 days acceptable? The moment my wife and my mother go into your supermarket, we buy the food and hand over our dosh, and you take 60 days to pay your suppliers. Is that justice? Answer the question please, Mr Coupe—don't a long explanation. Is that justified? Is it?

Mike Coupe: Our suppliers get paid 97% accurately on the payment terms that they agree with.

Q218 **Chair:** Is 60 days acceptable—and some of it is 90 days, and I suspect



HOUSE OF COMMONS

you have some that are longer than that, if we drill down on it, which we probably can—when you are paid on the dot? I cannot come into your shop and say, “I tell you what. I will enter a negotiation with you. I think I might like to pay you for this in 60 days. In fact, I think I might like to pay you in 90 days”. Come on. It’s not going to happen, is it?

Mike Coupe: We also operate a service to all our suppliers where they can get paid literally the next day through a trading finance platform.

Q219 **Chair:** Will you give us written figures, then, please? We cannot expect you to say who they are, but I would be very interested to know how many people you pay the next day, how many you take 30 days to pay and how many you take 60 days to pay and how many you might take 120 days to pay. It is not just you; they are all at it, but the bigger you get, the more you will be able to extract the pain. Would you give us those figures?

Mike Coupe: I had a meeting yesterday with the Small Business Commissioner and he was surprised, if not amazed, about how we go about paying our suppliers. I would stand by our track record.

Q220 **Chair:** Therefore, you would be happy to give us those figures on who you pay and when you pay them, not the names but the percentages.

Mike Coupe: If you listen to our suppliers, interestingly, they talk about things like the continuity of the relationship, having stock in.

Q221 **Chair:** You are not going to give us those figures, are you?

Mike Coupe: No. 10 on their list is payment terms, in terms of things they require from a large retailer.

Q222 **Chair:** Will you give us those figures?

Mike Coupe: I will give you an insight into how we pay our suppliers, yes.

Chair: You will give us an insight. That is very good of you.

Q223 **Julian Sturdy:** I really want to drill down, to understand the difference between how you currently pay your small suppliers and how Asda currently pays its small suppliers. If there is a difference, what will that mean to the merger and potentially to those small suppliers?

Mike Coupe: That is a very good example. Going to the point earlier, there are two different approaches. Currently Asda will guarantee, I believe, suppliers of a certain turnover a certain level of payment days. Whether or not they adhere to those payment days, I do not know. That is not in the public domain. Going back to the best of both, the whole of our approach in this deal will be to bring the standards of both businesses up to the best. If as a result of that, for instance, our match rates at 97% were better than theirs and their payment days at 15 days were better than ours, that would be a classic example of one of the benefits that I would see coming to our smaller suppliers.



HOUSE OF COMMONS

Q224 **Julian Sturdy:** Rather than saving money and squeezing money out of that, you are going to try to deliver higher standards.

Mike Coupe: In the end, this is about cash flow.

Q225 **Julian Sturdy:** It is so important for those small suppliers.

Chair: It certainly is, and it is going to encourage them to save 10%.

Mike Coupe: The implication of this conversation is that somehow we are going to work everybody back to the lowest common denominator. I will be the group chief executive of this company. I am very proud of my track record over decades in this industry of raising standards well beyond anything else that you see in the world. We are at the leading edge of many of the things that we do in the UK. Sainsbury's has been at the leading edge of that.

Q226 **Chair:** All we want this morning is the assurance. We are getting far too long an answer, Mr Coupe.

Mike Coupe: If you take the payment days as an example, I know Asda pays its suppliers, at least in theory, more quickly, and I know Sainsbury's has a very consistent level of payments. If it is possible to, and I believe it will be, we can equalise both of those things, so it is the best of both.

Q227 **Julian Sturdy:** There could be a benefit to those small suppliers.

Judith Batchelar: Yes.

Q228 **Angela Smith:** I have a couple of questions on the quality spec of your products. I just got slightly nervous with the Asda chief executive that the quality spec of Sainsbury's would be impacted by the drive to reduce cost by 10%. I think this is the £550 million. What guarantee can you give us? Mr Coupe, you have just made the point about not wanting to drag things down to the lowest common denominator, so quality will not suffer.

Mike Coupe: No, not at all. Judith is the expert.

Angela Smith: It is straightforward. We do not need a long explanation.

Mike Coupe: The short answer is no. Standards will not slip. The nature of our business is such that we have no customers when we open our doors every morning and, if we do something that disenfranchises them, they do not shop with us.

Chair: Standards are going to remain, prices are going to remain and you are going to make a 10% saving.

Q229 **Angela Smith:** The next point is this: 60% of your sales are in London and the south-east. It is the reverse for Asda. We are hearing from you, much more than we did from Asda, that this merger is potentially going to be innovative, it is going to drive up standards and you will not fall back on the lowest common denominator.



HOUSE OF COMMONS

Chair: Yes, and it is going to save money.

Angela Smith: It sounds like a stitch-up of the market, because effectively you are not always directly competitive with each other. Think about the 60% volume of sales that you have in one part of the country, whereas Asda, as we know, is very much a Yorkshire company, a northern company. It is where I grew up, and I did not see a Sainsbury's until I was in my 20s. Surely, this is much more about a shortcut and a stitch-up of the market.

Mike Coupe: Customers vote with their feet. It is very straightforward. As a customer you have more choice than you have ever had and if we, in your words, stitch up the market, you can see what has happened to our competitors over the past four or five years. They have seen a significant reduction in their sales if they, one way or another, are getting out of line with customers' expectations. Some of that might be price. We have not talked at all about service and quality. We would certainly aim, as we have already said, to raise the standards of both service and quality. If we do not do a good job for our customers, they will go and shop somewhere else. It is as straightforward as that. We will get punished.

Q230 **Angela Smith:** We will take your word for it. The final question is a cheeky one. You were caught on video singing, "We're in the Money" before your interview on the merger. How can you guarantee that not just Sainsbury's will be in the money, or you personally, Mr Coupe, will be in the money, but your staff, your customers and your suppliers will also be in the money as a result of this merger?

Chair: If you are in the money, why are the consumers better off?

Mike Coupe: It was an unfortunate incident, as you say, and it was pre-recording. I am sure we have all had our moments. I have apologised and will apologise for that. Personally, I stand to gain nothing from the deal. As I have already said, I will be the chief executive of the combined companies. I stand by my personal integrity and my track record. If I take our employee pay, we pay significantly ahead of the national living wage. We have increased our base rate of pay from £7.08 to £9.20 in my tenure as chief executive. That is a 30% pay rise or roughly £4,000 a year.

Q231 **Angela Smith:** Will employees, customers and suppliers all be in the money as well as a result of this merger?

Mike Coupe: I believe so. I believe it is good news for customers, good news for suppliers, good news for our colleagues. Lastly, as has hopefully come out during the course of this conversation, it will create a UK-based public company, accountable to people such as you, against a backdrop where many of our competitors are multinational global organisations of many times the size of even the combined entity, and we must never lose sight of that.

Q232 **Chair:** You are on record as saying that this deal is of no financial benefit



HOUSE OF COMMONS

to you.

Mike Coupe: Yes.

Chair: That is fine. I will leave it there.

Q233 **John Grogan:** In reference to the same ITV “Calendar” scoop, I think it was, I do know if you not read the *Observer*, but its business headline on Sunday was “Singing Sainsbury’s boss still has to convince the critics”. This brings us back to the market share argument. They explicitly said that the 25% excluded Boots. Does it include Boots?

Mike Coupe: I believe it does, but I have committed already to write to Mr Parish and outline it. It also includes people like B&M and Marks & Spencer.

Q234 **John Grogan:** What about Just Eat, which delivers takeaways?

Mike Coupe: It does not include Just Eat. Just Eat would be separate.

Q235 **John Grogan:** It includes Boots, then, and you have a 25% share. Are you seriously saying that on the dinner test—where am I going to go and buy my dinner tonight?—I am going to get a Ribena and a tuna sandwich, and that is directly competing?

Mike Coupe: You can walk across the road to the Boots along here and buy a sandwich.

John Grogan: Do you include all takeaways then?

Mike Coupe: No, not in our market definition. We will supply our market definition to this Committee so that you are crystal clear and there is no ambiguity. The narrow definition that Mr Parish has talked about does not include people like Marks and Spencer, and does not include companies like B&M.

Q236 **John Grogan:** Which leading figures in the industry outside the retailers accept these figures? Is there an independent organisation that accepts them?

Mike Coupe: Ultimately, it is up to the CMA to take the evidence from not just us but from—

Q237 **John Grogan:** Have they taken these wider figures in any previous big takeover?

Mike Coupe: The last time the grocery industry was formally investigated was sometime in the mid-2000s so, to be quite honest, you are testing my memory as to what they may or may not have taken.

Q238 **John Grogan:** Just to test it a little more, whose idea was this merger? Was this your idea?

Mike Coupe: The first conversation took place with Walmart probably two years ago. It was a private conversation between me and a



HOUSE OF COMMONS

gentleman called Dave Cheesewright, who at that stage was the head of Walmart International, and we were talking about many of the forces that we are discussing here today.

Q239 **John Grogan:** It has been discussed for two years but your counterparty, although he admittedly was not the boss, knew last October. It has been kept pretty tight between you and the very top brass at Asda, as you have explained.

Mike Coupe: It is amazing—

John Grogan: That it did not leak.

Mike Coupe: —to be honest, that we got to within four days of our public announcement, and it had been going on, in all seriousness, for probably around 15 months. It is little short of miraculous that it did not leak. One of the reasons for the singing incident may be that I had spent the previous 48 hours of my life getting us to a place where we could make the announcement that we subsequently made. Yes, it has been a conversation, effectively, with the Walmart world organisation.

Q240 **John Grogan:** Bringing us back to the world of Keighley, in how many markets in the United Kingdom are there both an Asda and a Sainsbury's?

Mike Coupe: I could not tell you off the top of my head.

Q241 **John Grogan:** Is it more than 20?

Mike Coupe: More than 10 to 20 and less than 100 would be my guess.

Q242 **John Grogan:** Is it more than 50?

Mike Coupe: It depends on how you would define a market. It is probably more than 50 but less than 100.

Q243 **John Grogan:** You would have thought that this would be perhaps at the front of your mind. Am I being unfair? This is something that the regulator will look at. We think it is more than 20 and probably about 50. Am I being unfair?

Mike Coupe: I am very well aware of the detail. I can tell you about each of your constituencies. Mr Parish has five Tesco stores in his constituency, and no Asda and no Sainsbury's. I would be delighted to—

Q244 **John Grogan:** I am looking at the whole of the United Kingdom, Mr Coupe. You would accept, then, that there is a possibility the CMA will demand that some of these stores are sold off. You do not want it to happen, or do you want it to happen?

Mike Coupe: It is likely.

Q245 **John Grogan:** From the point of view of these proud towns and cities of England like Keighley and so on, although we do not know how many there are, why on earth should we take the chance? As we have heard,



HOUSE OF COMMONS

there is probably going to be no buyer if you have to sell off the Sainsbury's or the Asda in Keighley or elsewhere. There is at least a good chance that there will be no alternative retailer coming in there.

Mike Coupe: We cannot speculate on what the CMA may or may not say.

Q246 **John Grogan:** You would do if you were in Keighley, would you not, and you were working in Asda or Sainsbury's? You would probably speculate.

Mike Coupe: I cannot speculate on what the regulator may or may not do. I can say, with absolute certainty, that they will not allow us to close any stores. There was a little bit of coverage at the time that suggested we might close stores. I made the commitment that there will be no stores closed as a result of this deal.

Q247 **John Grogan:** They might force you to dispose of them.

Mike Coupe: They may do.

Q248 **John Grogan:** Then you might not get a buyer.

Mike Coupe: That is speculative at this stage.

Q249 **John Grogan:** But it is possible, is it not?

Mike Coupe: It is speculative.

Q250 **John Grogan:** Is it possible?

Mike Coupe: It is possible.

Q251 **John Grogan:** If you were in Keighley, you probably would not take the risk. My final question, again, is a bit personal, but it is going to be out in the public domain soon. Good employers are going to have to say how much the CEO gets and how much the median employee gets. What is it in your case?

Mike Coupe: My salary is a matter of public record. I am paid £943,000 a year and that is, I think, at the last calculation around 58 times the median pay of our employees.

Q252 **John Grogan:** You got a little bit of a bonus this year.

Mike Coupe: Yes, and that would take it up to, off the top of my head, something like 150 times.

Q253 **John Grogan:** Was it a 45% bonus increase this year, and how did that compare with what happened to Sainsbury's profits this year?

Mike Coupe: Sainsbury's profits went up this year.

Q254 **John Grogan:** By how much?

Mike Coupe: My targets are set by the board and signed off by the remuneration committee, and 97% of our shareholders voted for my package last year.



HOUSE OF COMMONS

John Grogan: It must be nice to be liked.

Mike Coupe: By the way, the previous year, it fell by 40%.

Q255 **John Grogan:** These 9,000 of your employees could not necessarily have put their hand up for that bonus if they had had a chance to vote. You have guaranteed their conditions to 2020. It is things like abolishing Sunday hours. But they are going to be losing up to £3,000, at least £400, from 2020, and they are all on a bit less than you and quite a lot less than I am. They are all trying to pay mortgages, and 2020 is not far away. They are saying, "Are we going to lose £3,000 or not?" Is it not true that, if you and the top two in your team had forgone your bonus, you could immediately have guaranteed them beyond 2020? Is that not arithmetically true?

Mike Coupe: That is not true. It is categorically untrue.

Q256 **John Grogan:** How much would it be? Could you have saved 50%? There is that phrase that it is easier for a camel to go through the eye of a needle than for a rich man to enter the kingdom of heaven. I do not know whether you are a religious man, and I am a great believer in market forces and things, but does it occasionally occur to you that perhaps you could be said to be a symbol of the greedy, unacceptable face of capitalism?

Mike Coupe: I am hugely proud of the fact that, over the last four years, I have personally ensured that our colleagues have got their bonus every year, when there have been a number of years in which, under the strict rules of our scheme, they should not have done. That has been £100 million over both of those periods. We have increased the base rate of pay of our colleagues by 30%. Yes, there are changes to their terms.

Q257 **John Grogan:** As a final question, you have guaranteed it until 2020. All your colleagues have to pay their mortgages and so on. When will you tell them what you will do after 2020? They have to plan. I do not know what you are going to do with the extra £500,000 or £1 million. I would not speculate, but they have to plan on mortgages and so on, so could you say, by the end of this year, you will tell them what their situation is going to be after 2020, just as a good employer?

Mike Coupe: Our next pay round will be announced in around July or August of 2020.

Q258 **John Grogan:** You will not tell them anything before 2020.

Mike Coupe: We have said we will guarantee pay—

Q259 **John Grogan:** You are not going to tell them what is going to happen after 2020 until 2020.

Mike Coupe: Yes.

Q260 **John Grogan:** You will, but when?

Mike Coupe: No, sorry. I agree with what you said. No, we will not.



HOUSE OF COMMONS

Q261 **John Grogan:** You will not. It must be hard to plan their mortgages. When you go to sleep tonight, it would be worth thinking about that.

Mike Coupe: I take your point, but I go back to my central point, which is that we have increased their wages by £4,000, and there are no retail businesses in the UK that will get anywhere near that track record.

Q262 **John Grogan:** You are going to have to make these people work very hard. It would not take much, for 9,000 very loyal colleagues.

Mike Coupe: It is not 9,000, by the way.

John Grogan: How many is it?

Mike Coupe: It is slightly less than that, and there are only nine people who will be £3,000 a year worse off.

Q263 **Chair:** For the record, this merger with Asda will make, across part of the retail sector, 10% savings. None of those savings are going to be made by making staff work harder and generally reducing their terms of employment. You can give us that assurance this afternoon for the record, can you?

Mike Coupe: I can give you that assurance, but I also come back to the fact that you are misinterpreting the way we have outlined our case. We are not planning to reduce—

Chair: No, we have had—

Mike Coupe: It is very important that we put on the record—

Q264 **Chair:** Mr Coupe, I do not want any more of that. We have had it all morning—enough. Now then, again for the record, do you believe the bonus payments you are made to be part of your salary?

Mike Coupe: I don't understand.

Q265 **Chair:** Are bonus payments that may be made to you part of your salary? Do you consider them to be part of your salary? You gave us an answer saying that there is no benefit in your salary to this merger, so I want it absolutely clear, because I suspect there will probably be quite a large bonus for you. I suspect you gave us an answer saying that there would be no increase in salary, but a little further down the road it will not have anything to do with the Asda merger deal, but there will be a large bonus for you. You do not believe your bonus to be part of your salary.

Mike Coupe: I can say categorically that neither my salary nor my bonus and other incentives are predicated on this deal going through, and there is no financial benefit to me as a result of this deal going through. I can say that categorically.

Q266 **Chair:** Do you consider your bonus as part of your salary? You do believe it to be part of your salary.



HOUSE OF COMMONS

Mike Coupe: I think we are being semantic. I get paid a salary.

Q267 **Chair:** We are not being pedantic. We are being far from it. You are being pedantic.

Mike Coupe: I get paid a bonus when I achieve targets and I get other share-based incentives. I will not benefit in any of those three things as a result of this deal.

Q268 **Chair:** There will be no bonus. There will be no increase in your shares or your salary.

Mike Coupe: I might get a bonus as a result of the performance of Sainsbury's, but I will not get a bonus as a result of this deal. I just want to make it as clear as I can.

Q269 **Chair:** It is nothing whatsoever to do with the merger.

Do you agree that our planning system favours supermarket incumbents as, once you have a store in town, it is easier to extend and soak up the capacity of retail trade in that town?

Mike Coupe: That is a big question. Going back, the world of retail is changing very rapidly and we are not building any supermarkets anymore.

Q270 **Chair:** I am interested in your answer, because this was Sainsbury's submission, which was published, to the *Groceries Market Investigation: Remittal of the Competition Test* back in 2009. It was not about you; it was about another large retailer. I am interested, you see, because that fits very neatly. If you do not believe that you soak up the capacity, you would not really want to be doing this deal with Asda. Also, it is unbelievable that neither Asda nor you know in how many towns in the country there is only a Sainsbury's and an Asda.

I need an answer from you. You do not know, even though you have had these fancy people doing all these talks that you have not had. You do not know in how many towns in the country there is just an Asda or just a Sainsbury's.

Mike Coupe: I have already given an answer to that question, as far as I can.

Q271 **Chair:** Do you know or do you not know? I cannot believe you are doing this deal with Asda without knowing these figures. We cannot second-guess what the CMA will do, but we do not have to be Einstein to work out that that is the one thing that it will do, if it allows this to go ahead. You must know how many towns in the country.

Mike Coupe: We will make a submission to the CMA with all that data and all that information.

Q272 **Chair:** You do not know it at the moment.



HOUSE OF COMMONS

Mike Coupe: As I say, it depends on how you define individual markets and individual towns. For example, how would you define London?

Q273 **Chair:** You do not have to complicate this, Mr Coupe. It is quite clear when you go to a town. You told me how many Tescos I had, you see, and I did not have a Sainsbury's. You are quite right, but that does not worry me.

Mike Coupe: It worries me.

Chair: Both my wife and I, and my mother, shop at Sainsbury's, so don't get too clever. Therefore, I am not anti-Sainsbury's, because otherwise I would not have paid you good money over the years. The question is quite clear and quite fundamental. You knew in my constituency whether there were Tescos and whether there were any Sainsbury's. Do not, please, insult my intelligence and tell me you do not know in how many towns across the country there is just an Asda and a Sainsbury's, because you do know.

Mike Coupe: I apologise for sounding like I was insulting your intelligence. If you take London as an example, I am not sure how you would define London as a town. Both of us operate stores in London.

Q274 **Chair:** You could even get the figures in London. London is more complicated. I accept that.

Mike Coupe: What about Leeds, Birmingham, Manchester and Bristol, where most people live?

Q275 **Chair:** You could still do it. You know the addresses and you know where all the supermarkets are in the country. Like I said, I imagine anybody doing their thesis for a PhD or even a course at university would be able to get all these figures, put them together and collate them, so you do know.

Mike Coupe: We will make a submission to the CMA with all the relevant data.

Q276 **Chair:** You do know.

Mike Coupe: We will make a submission.

Q277 **Chair:** Cities are more difficult anyway, because you have more choice. You can move around a city and there is not so much distance, but in towns, especially rural towns, there are fewer places you can go and it takes you longer to get there. You must know how many towns there are where there is just an Asda and a Sainsbury's.

Mike Coupe: I have given you the answer.

Q278 **Chair:** You will not give an answer. Okay, thank you very much. When are you expecting the CMA to make a decision as to whether the merger can go ahead? I imagine you and Asda would say the same.



HOUSE OF COMMONS

Mike Coupe: It is a long process. They will produce a report probably around February of next year. They will then talk about any remedies that they see as appropriate. We have said on the public record that we would expect, if the transaction were to go through, it would complete somewhere in the second half of 2019, somewhere between 15 and 21 months from now.

Chair: It will be around September, okay. Thank you both very much for your evidence.