



Case M-007

Groceries Market Study Draft Report

Consultation Paper

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1 Overview

- 1.1 This document provides an overview of the Jersey Competition Regulatory Authority (**the Authority**)’s consultation for the groceries market study. A market study is the analysis of a market as a whole, or features of a market, using a variety of evidence to assess how well it is working and if any changes should be recommended to make it work better.
- 1.2 The market study is being carried out against the published terms of reference which identified the key areas to consider as:
- the market characteristics, including consumer demand, market structure and market outcomes; and
 - the nature of competition across the grocery market supply chain.
- In addition to these two areas, the study will also review:
- the features or otherwise of the grocery market which potentially impact competition; and
 - the comparative data and findings from previous market studies carried out by the Authority and wider international developments.
- 1.3 In the delivery of this market study the Authority has been supported by experts from Frontier Economics.¹ Accompanying this document is a Frontier Economics report “M-007 Groceries Market Study: Draft Report” (**draft report**).² The draft report sets out the detail and the analysis supporting the findings and recommendations set out for consultation.
- 1.4 The consultation seeks views on the draft report to further inform the Authority’s understanding of the groceries market and ensure the recommendations are appropriate for Jersey. After the consultation closes, the findings and recommendations will be reassessed, taking into account stakeholder feedback and the final report will be published in autumn 2023.

¹ Frontier Economics is one of the largest economic consultancies in Europe and uses cutting edge economics to solve complex business and policy problems, and works with leading private and public sector organisations. Frontier has extensive experience in Jersey and in the grocery sector. Further information about Frontier is available at www.frontier-economics.com.

² Authority document number 23/24

2 Background

2.1 This section is split into three subsections, which cover in turn:

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

The Authority

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

2.3 As an independent regulator, the Authority has ambitious aims to help shape and sustain the Island's economic future, for the benefit of Jersey consumers, citizens and businesses. These aims are captured in the Authority's Strategic Plan.³ This plan is the guiding framework within which the Authority shapes, prioritises and delivers its annual Business Plan.

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

Overview of market studies

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

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

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

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

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

³ See: <https://www.icra.je/strategic-plans/strategic-plan/strategic-plan/>

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

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

The market study process

- 2.10 The groceries market was selected for study following a structured approach. This involved the identification of potential candidate markets which were screened to determine those most relevant to Jersey. The subsequent short list was then assessed against a structured range of criteria to rank in order of desirability. This process resulted in the groceries market being selected as:

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

- 2.11 Taking these factors into account, the terms of reference were issued with the launch of the study in November 2022.⁴ Frontier Economics were appointed to support the market study after a competitive procurement process based on proven expertise, strategic fit and value for money.

- 2.12 In addition, to further inform the market study, the Authority commissioned independent consumer research; to be conducted by Jersey-based 4insight, drawing views from Islanders, as well as inviting written and telephone responses. The research was designed to discover where consumers buy their groceries, how often, and the average weekly spend. Another aim of the study was understanding what factors influence consumers when deciding where to shop, both in physical stores and online. This has been incorporated into the draft report and an overview of the research has also been published alongside this document.⁵

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

- Interviews were undertaken (mostly via Microsoft Teams) with key stakeholders in Jersey, covering the main on-island grocery retailers as well as smaller players and, government and consumer bodies. To broaden the study perspective, interviews were also held with UK operators not present in the Jersey grocery market.

⁴ See: <https://www.jcra.je/cases/2022/m-007-groceries-market-study/groceries-market-study-terms-of-reference/>

⁵ Authority document number 23/25

- Retailer interviews were followed up with questionnaires (for the retailers), this provided the opportunity to provide evidence for the study.
- Analysis of price comparison data, both from the Jersey Consumer Council price comparison website and UK based retailers (also using price comparison websites).
- Public information, data and fact gathering to provide evidence to develop the analysis, and to support or refute issues raised in the stakeholder interviews.

2.14 Full details of the approach and results of the analysis are set out in the draft report issued alongside this document. In line with the published approach, the Authority is seeking stakeholder feedback on the draft report. The high level findings and recommendations are set out in the next section, with the process for the consultation and areas of focus, set out in section 4.

3 Draft report: findings and recommendations

- 3.1 The draft report presents a detailed view of the market and the 'state of competition', e.g., market size and structure, consumer demand, supply characteristics and pricing comparisons. The overarching summary indicates a market that is working with no clear or material competition policy concerns.
- 3.2 Consistent with previous Authority studies into groceries, the draft report suggests there is potential scope for measures designed to improve the competitive process. For example, in respect of market entry and structure, and in respect of consumer information and consumers' ability to effectively exercise choice.
- 3.3 While the draft report indicates that on-island pricing for groceries remains generally above those in the UK, it also sets out reasoning for price differences. Again, the analysis and reasoning appear consistent with previous Authority studies - higher on-island prices are largely explained by a higher cost base on-island (relative to the UK).
- 3.4 Box 1 below sets out the draft findings and recommendations. Implementing the options, if they are adopted, will require both work and support by the Authority and other key stakeholders.

Box 1: Draft findings and recommendations

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

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

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

1. Improving price transparency with investment in Jersey Consumer Council's price comparison service, to encourage greater price based competition.
2. Maintain a competitive and dynamic groceries market, by minimising entry barriers and promoting Jersey as a test-bed for innovation.
3. Follow up recommendations from the 2021 market study into Freight Logistics, to increase competition and reduce freight costs.

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

4 The consultation and next steps

- 4.1 The Authority is consulting on the evidence, draft findings and recommendations set out in the draft report and accompanying documentation. The Authority welcomes feedback from any interested parties and the topics on which the Authority is seeking views are set out in box 2 below.

Box 2: The consultation topics

1. Do respondents support the draft recommendation for improved price transparency in the groceries market (enhancing the Jersey Consumer Council's price comparison service)?
2. On draft recommendation 2 and the market dynamic, do respondents agree that, where possible, entry barriers should be minimised to enable market entry and that Jersey should be a test-bed for innovation?
3. The Authority would also welcome views on any other matter relating to the draft report and the draft findings, including views on who is best placed to help implement each of the options for recommendations.

- 4.2 Responses can be submitted by email to info@jcra.je or alternatively in writing to:

Jersey Competition Regulatory Authority
2nd Floor Salisbury House
1-9 Union Street
St Helier
Jersey
JE2 3RF

- 4.3 All responses should be clearly marked: "Groceries market study: draft report". Please respond no later than 5pm on 21 July 2023. For transparency and to inform public debate, the Authority intends to publish all responses received. In providing responses:
- Please supply a brief summary of the interests or organisations you represent, where appropriate;
 - Please consider whether you are providing any material that you consider to be confidential, and explain why this is the case; and
 - If the response contains confidential information, please also provide a non-confidential version of your response alongside it.
- 4.4 If you are an individual (i.e. you are not representing an organisation), please indicate whether you wish for your response to be attributed to you by name or published anonymously.
- 4.5 After the consultation closes, the draft findings and recommendations will be reassessed, taking into account stakeholder feedback received. The considerations will be captured, as appropriate, in the final report which is due to be published in autumn 2023.