

WWW.FRONTIER-ECONOMICS.COM



M-007 GROCERIES MARKET STUDY

FINAL REPORT

SEPTEMBER 2023



CONTENTS

1	Executive summary	3
2	Background to the market study	6
3	Methodology	8
4	Market outline	10
5	Understanding retailer cost drivers and profitability	21
6	Prices and inflation	26
7	Recent grocery developments	36
8	Recommendations	44
	Annex A – Terms of reference	48
	Annex B – Detailed methodology for our basket of goods analysis	49

1 Executive summary

The grocery market is important for Jersey consumers. Grocery shopping is a notable expense, accounting for a considerable share of Jersey households' total weekly spend, particularly for the lowest income households.¹ Inflation has hit its highest rate in Jersey for 30 years, food prices rose by 15% in the year to June 2023, impacting households' budgets.

Against this backdrop, the Jersey Competition Regulatory Authority ("the Authority") commissioned Frontier Economics to support its Market Study of the grocery market in Jersey. The purpose of the study is to see if the market is working for consumers, and it is being carried out against published terms of reference, included as Annex A.

Consistent with Authority practice, a draft report setting out draft findings and options for recommendations was published for Consultation and stakeholder feedback in June 2023. This final report accounts for the feedback received, and sets out the final findings and recommendations. Further detail on the process can be found in the Authority's Findings and Recommendations paper issued alongside this final report.

Key findings

Based on our analysis we conclude that competition in the Jersey grocery market is working. Grocery retailers are not making excessive profits and consumers shop around. Jersey has a variety of grocery retailers with diverse propositions, and no retailer has more than a 40% share of the market (even accounting for the fact that Sandpiper CI owns multiple brands). Since the last Grocery Market Study in 2014, Jersey's grocery market has developed with new entrants and the emergence of online groceries.

While Jersey has recently experienced significant food inflation, this is a global phenomenon, not specific to Jersey. There is no sign that Jersey grocery inflation is out-of-line with inflation in the UK and Guernsey. Increasing grocery prices are the result of increasing supply chain input costs (principally higher energy and commodity prices), not higher retailer margins. Grocery price inflation in Jersey should slow as global cost inflation slows down in due course.

However, in comparison to the UK, Jersey lacks the lower price grocery retailers – notably the 'Big Four' and the Discounters. 39% of consumers report being unsatisfied with their grocery shopping experience, particularly the most budget-conscious consumers, and there are clear calls from these consumers for a 'budget' competitor.²

The lack of lower price retailers is due to the inherent barriers to entering a small, island market, rather than Jersey-specific issues. Guernsey also lacks these lower price retailers.

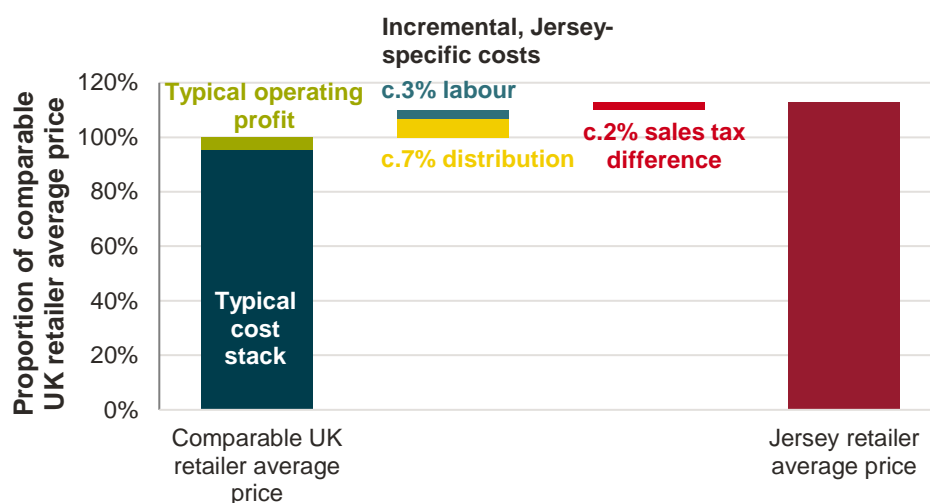
¹ 9% for the average Jersey household, rising to 15% for lowest income households (Living Costs and Household Income Survey. Statistics Jersey, 2014). We note these figures are almost 10 years old, however, we do not expect that the share of total spend will have fallen materially since 2014. The next iteration of the survey is due later in 2023.

² 4insight Consumer Research Report (published alongside this report on the Authority's website).

These barriers include Jersey's small market size; the market is already well served (e.g. most store sites are already occupied); and the logistical challenges of supplying an island market – plus specific restrictions linked to the planning regime in Jersey. As the grocery market continues to develop, it will remain important to engage with retailers (including prospective new entrants) to identify and address any new barriers to entry and expansion that may emerge.

Grocery prices are higher in Jersey than in the UK. The cost of a shopping basket at the same retailer is c.12% lower in the UK than in Jersey. However, this reflects higher costs (primarily freight and labour) and tax differences³ – as shown in Figure 1 – rather than competition issues. On one hand this means that, if a lower price retailer were to enter Jersey, its prices would be higher than those in the UK. On the other hand, since competition is working, and retailers are not making excess profits, reducing the additional costs (particularly freight) would likely be reflected in lower prices for consumers.

Figure 1 Jersey-specific costs explain grocery price differences with the UK



Source: Frontier Economics illustration based on retailer data

Takeaways for policymakers

The Jersey grocery market is functioning well from a competition perspective, with a range of grocery retailers and no sign of excess profitability. But the lack of lower price retailers and higher operating costs could have a disproportionate effect on some lower-income consumers. The cheapest grocery retailers in the UK can be up to c.33% cheaper than retailers in Jersey. Therefore, continuing to find ways to further support the competitive process and consumers is still an important issue.

³ All groceries are subject to 5% GST in Jersey. Most groceries are exempt from 20% VAT in the UK, but not all. So, for most products, 5% more tax is paid in Jersey, but for some 15% less tax is paid. On average, c.2% more tax is paid in Jersey.

Recommendations

Based on our findings above we have developed three recommendations for consultation, which seek to further enhance market outcomes, and ensure that consumers continue to benefit from a dynamic grocery market in Jersey.

1. Increase funding to improve Jersey Consumer Council's price comparison service, to improve awareness of the tool, the accuracy of the data collected and the tool functionality. This will make it easier for consumers to compare prices across grocery retailers and identify the best-value groceries, and would encourage further price-based competition for the cheapest groceries.
2. Minimise any additional entry barriers like planning and labelling requirements and improve comparability of Jersey with other relevant grocery markets, to help maintain a competitive and dynamic grocery market. To support this, promote Jersey as a testbed for innovation to the benefit of the island and the sector.
3. Continue to consider the Authority's recommendations in its 2021 Freight Logistics Market Study, which aimed to promote more competition and help improve the price, quality and range of freight logistics services available to Jersey businesses. Reducing freight costs for Jersey retailers will translate to lower grocery prices for consumers.

2 Background to the market study

What is a market study

A market study is a flexible tool to explore whether a market, or features of a market, are working well for consumers. It considers the relationship between consumer behaviour, business behaviour, and the market's structure. Through analysing these relationships, an Authority can determine whether there is a need for action to help address any issues identified. This action could focus on enabling changes to consumer behaviour, business behaviour, or both. A market study is not targeted to the actions of any specific business.

Market studies are one of the Authority's key work areas and in the last two years market studies have been completed into a number of different markets, including for example Alcohol Pricing and Promotions, Freight Logistics and School Uniforms.

Previous studies of the Jersey grocery market

The Authority has assessed the level of competition in the grocery market several times in the past, through three market studies (in 2005, 2008, and 2014), an assessment of Waitrose's acquisition of stores from Sandpiper CI (herein "Sandpiper") and an assessment of Sandpiper's acquisition of JMart Ltd. convenience stores in 2017.⁴

These assessments all aimed to ensure the grocery market continued to work well for Jersey consumers, and improve outcomes where possible. For example, the 2014 market study into the grocery market (herein "the 2014 Market Study") recommended relaxing Sunday trading rules for large grocery stores, as this could benefit consumers. Subsequently, Sunday trading rules were relaxed in 2019, removing restrictions on stores bigger than 700m² (7,500 sqft).⁵

Rationale for the study

As set out in the Authority's annual Business Plans, the Authority selects markets where a market study could potentially add value. Different markets are screened to determine those most relevant to Jersey at the present time, with each being assessed against a range of criteria. This includes an assessment against the Authority's Prioritisation Principles.

Groceries represents a significant proportion of household expenditure. Also, in the context of the current economic climate, increasing inflation and the 'cost of living' debate, consumers are facing additional expenditure pressures. There have also been structural and other changes in the market since the 2014 Market Study, including for example, market entry and the emergence of online shopping.⁶

⁴ See cases C05J, C08J, C14GJ, M601/10J and M1290J on the Authority's website

⁵ See: <https://www.bbc.co.uk/news/world-europe-jersey-50144776> [Last accessed: 02/05/2023]

⁶ Market entry has included that of new online retailers and the Morrisons Daily fascia (through Sandpiper).

Developments in the UK

The UK's Competition and Markets Authority (CMA) has also been assessing the grocery market in the UK, to determine whether weak or ineffective competition is contributing to higher prices. The CMA's latest update concluded that: "the evidence we have seen indicates that recent high price inflation for groceries to date does not appear to have been driven at an aggregate level by weak or ineffective competition between retailers".⁷

In fact, the CMA highlighted that the UK grocery market is highly competitive, with slim retailer margins, high levels of consumer choice, and well-functioning price competition.⁸ This market study uses the UK grocery market as a competitive benchmark.

Focus of the market study

Consistent with the published terms of reference⁹ we have focused on several important areas in carrying out the study, including:

- market outline;
- understanding cost drivers and profitability;
- pricing and inflation; and
- recent grocery developments.

The market study does not focus directly on the relationships between retailers and their upstream suppliers. While this is a potentially large area to explore – as each product category has its own supply chain and specific characteristics, for example the supply chain for beef or dairy looks very different to the supply chain for beer or crisps – we have taken the decision (with input from the Authority) to prioritise the areas listed above. That said, a high-level commentary is provided in the market outline section to help frame the market.

Structure of this report

The rest of this report is structured as follows:

- Section 3 sets out our methodology;
- Section 4 describes the market outline of the Jersey grocery market;
- Section 5 considers the cost drivers and profitability of grocery retailers in Jersey;
- Section 6 analyses grocery pricing and inflation;
- Section 7 identifies recent grocery developments; and
- Section 8 sets out our recommendations.

⁷ Competition, choice and rising prices in groceries. CMA, July 2023; paragraph 3.99

⁸ Ibid; paragraphs 2.41 and 3.40

⁹ See Annex A

3 Methodology

As explained in Section 2, our findings in this market study drew on analyses of both qualitative and quantitative evidence. Specifically, our analytical approach included: scoping interviews with government, consumer and industry groups; a consumer survey; interviews with the main 'on-island' grocery retailers, and grocery operators not present on the island; analysis of price comparison data; and analysis of publicly available information. We explain each component of our overarching methodology in more detail below.

Scoping interviews

We conducted semi-structured interviews with key stakeholders ('scoping interviews') to inform our thinking and plan for analysis in the remainder of the study. This engagement sought to:

- raise awareness of the study among key stakeholders and generate buy-in;
- ensure we had a complete understanding of the supply side of the Jersey grocery market across channels and retailers; and
- clarify quantitative data that might be available to support the findings and the best options open to us to gather Jersey-specific data.

Four scoping interviews were conducted. Interviews with Jersey Business (JB) and Jersey Chamber of Commerce (JCoC) helped to provide a good initial overview of grocery retailer operations in Jersey and recent developments, and to inform the focus of retailer interviews. An interview with Jersey Consumer Council (JCC), provided us with a high-level understanding of existing consumer issues in relation to groceries in Jersey – it also facilitated our gaining access to the underlying data behind their price comparison service (see below). Finally, an interview with civil servants and policymakers within the Government of Jersey (GoJ) was used to confirm that our approach covered the most important themes or issues to explore from the perspective of GoJ.

Consumer survey

As part of the market study, the Authority asked 4insight to carry out a survey ("the Consumer Survey"), between January and February 2023, to explore how Jersey households shop for groceries – 1,579 completed responses¹⁰ were received. A write-up of the full survey results is published alongside this report and is available on the Authority's website. In this report, we have used the results of the Consumer Survey as a key input for:

- understanding the demand side of the Jersey grocery market; and
- identifying consumers' concerns regarding the functioning of the Jersey grocery market.

¹⁰ Equivalent to about 1.8% of all adults in Jersey

Retailer interviews

In addition to the Consumer Survey and scoping interviews, we carried out seven interviews with grocery operators to better understand the supply side of the market, in particular the challenges faced for existing and prospective operators in Jersey. Our operator interviews allowed us to gather views and information from:

- **five** Jersey-based retailers:
 - CI Co-op,
 - Waitrose,
 - Alliance,
 - Sandpiper, and
 - Valley Foods; and
- **two** operators not present in the Jersey grocery market:
 - a major UK grocery retailer, and
 - a rapid delivery platform serving the grocery sector.

Retailer interviews were followed-up with questionnaires for the retailers to fill out. This provided Jersey retailers with the opportunity to evidence the input they provided during the interviews themselves.

Analysis of price comparison data

As mentioned above, JCC was able to provide us with access to the data underlying its price comparison service. The price comparison service (accessible through a website or app) allows consumers to access information on the prices charged for a given product available at a range of Jersey fascia (listed in Annex B); and the evolution of the average price of a given product over the last few years.

For UK-based retailers, we use pricing data from a UK-based price comparison websites and the retailers' own online shopping websites.¹¹ We used this data to carry out our basket of goods analysis discussed in Section 6 and Annex B .

Analysis of publicly available information

The extensive research conducted using the methods described above has allowed us to build an in-depth understanding of the grocery market in Jersey and how it compares to other markets, and to identify features of the market that may affect competition. But we have also supplemented these analyses with desk research and analysis of publicly available information, such as the Jersey Retail 2023 Report produced by 4insight for GoJ,¹² to fill in any gaps in our knowledge that were not addressed via the targeted research methods above.

¹¹ Specifically, we use Trolley.co.uk [Last accessed 21/03/2023]

¹² Available at: <https://www.gov.je/Government/Pages/StatesReports.aspx?ReportID=5715> [Last accessed: 29/08/2023]

4 Market outline

This section provides an overview of the grocery market in Jersey, as a basis to explore the nature of competition on the island and assess recent changes.

We start by assessing the “Demand side” of the market, including information on Jersey consumers, how they choose to shop, and their views on the key drivers behind their choice of grocery retailers and channels. Then we assess the “Supply side” of the market, including the retailers present in the market, which channels they operate, and their relative market positioning. To conclude, we summarise the key features of the Jersey grocery market.

4.1 Demand side assessment

Market size and demographics

The Jersey grocery market is small in terms of the number of consumers, but benefits from a relatively strong economy and high average income that means the average consumer in Jersey has a larger groceries budget than in other countries.¹³ In terms of income and population size, the Jersey market is somewhat similar to that of a large local authority in or around London, such as Kingston Upon Thames, Guildford or St Albans.¹⁴ However, there is a group of relatively less affluent households in Jersey – c.24% of households, and c.21% of individuals are defined as having a relatively low income.¹⁵

Grocery shopping habits in Jersey

The Consumer Survey explored the retail ‘fascia’¹⁶ that consumers use for their in-person shopping – see Figure 2 below. It confirmed that CI Co-op (herein “Co-op”)¹⁷, M&S, and Waitrose are the most commonly used fascia on the island; each fascia is used by at least two thirds of consumers, and almost 90% of consumers shop at least one of these three fascia.

While there are a few retail fascia that are used by the majority of consumers, the survey also shows that many consumers shop across multiple fascia (note that the bars in the figure below sum up to more than 100%). Consumers spread their in-person grocery shopping across just under four different fascia on average. Further, we found that a significant group of consumers (30%) reported shopping at more than five different fascia.

¹³ The Consumer Survey shows that the average weekly spend on groceries is c.£112, which is considerably higher than in the UK. While the unemployment rate is similar to in the UK the average salary of Jersey workers is considerably higher than in the UK. See <https://www.gov.je/government/jerseyinfofigures/employmentearnings/Pages/index.aspx> and <https://commonslibrary.parliament.uk/research-briefings/cbp-8456/>. [Last accessed: 23/03/2023]

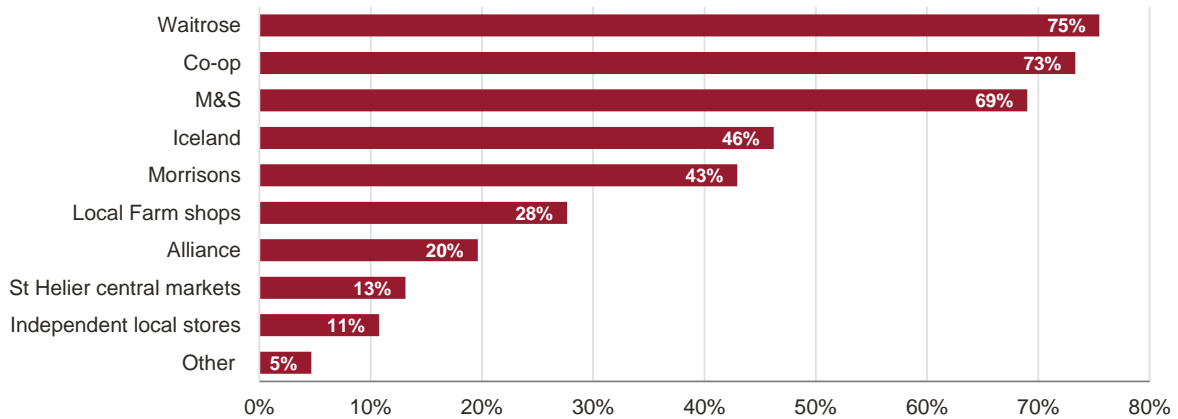
¹⁴ Based on comparison with ONS data from Annual Survey of Household Earnings, 2021; and UK Census 2021.

¹⁵ Preliminary Jersey Household Income Distribution Report 2021/2022. Statistics Jersey, 2021

¹⁶ ‘Fascia’ refers to the consumer-facing brands, for example M&S and Iceland. Some of these fascia (brands) have a common ownership – e.g. those operated by Sandpiper.

¹⁷ Unless specified otherwise (e.g. referring to UK branches of Co-op or Co-op Group), we refer to CI Co-op as Co-op.

Figure 2 Proportion of survey respondents shopping in-person at each of Jersey's grocery fascia

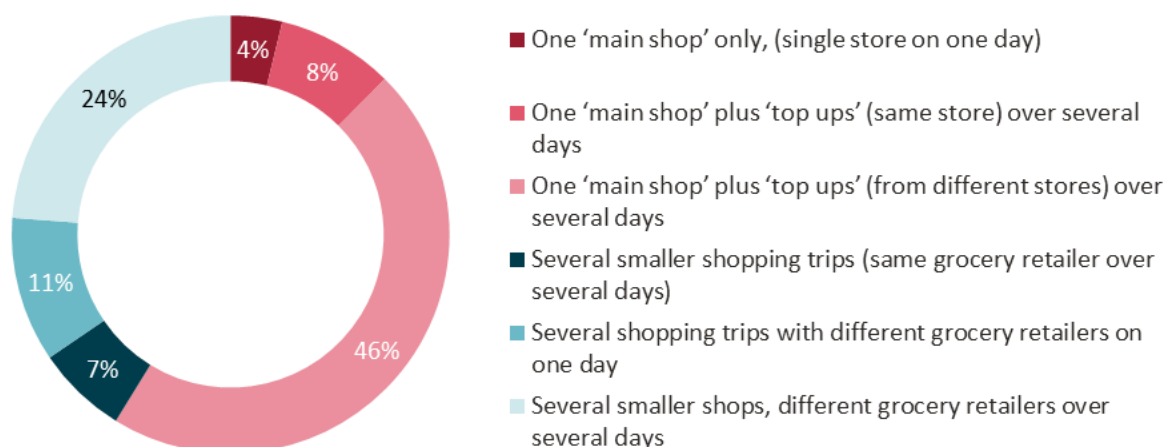


Source: Consumer Survey

The survey also explored the mix of 'shopping missions'¹⁸ between 'main shop' and 'top-up shops' and the grocery fascia used for these different missions. As shown in Figure 3, the majority (60%) of consumers do a 'main shop', where they purchase most or all of their shopping in one go at one store (Waitrose is particularly popular among these consumers given its larger stores), with smaller 'top-ups' through the week across other fascia. However, a sizeable minority (40%) of consumers do not use a 'main shop', and instead spread their shopping across smaller trips over the week.

¹⁸ 'Shopping missions' is a term used in the grocery industry when differentiating between types of shopping trip. By 'main shop' missions we refer to those big shopping trips through which consumers purchase the bulk of their shopping needs usually on a weekly basis. By 'top-up shop' missions we refer to those smaller shopping trips that are used to restock supplies that run out faster, or that were forgotten when doing the bulk of their main shopping.

Figure 3 Shopping missions of Jersey consumers



Source: Consumer Survey

Regardless of whether or not they prefer a 'main shop' or several smaller shopping trips, consumers tend to use a variety of fascia – 80% of consumers doing a 'main shop' still shop at three or more different fascia. This suggests that consumers are willing and able to access a variety of different grocery retailers/fascia, which is a positive indicator of market competition.

Consumer perceptions and satisfaction

The Consumer Survey suggests that there are mixed levels of satisfaction with the Jersey grocery market. The majority said they either felt neutral about (27%) or satisfied with (34%) the grocery shopping experience in Jersey. However, 39% of respondents said they were unsatisfied with the in-person grocery shopping experience in Jersey. And levels of dissatisfaction are higher (48%) among those who stated their main attitude to in-person grocery shopping was "I need to stick to a budget and value for money is most important".

This lack of satisfaction is in part driven by comparison to UK, which consumers identify as better value and better quality than Jersey. 95% of Jersey consumers who had shopped in the UK in the last 12 months indicated that groceries in Jersey are generally more expensive than in the UK.

This is also reflected in consumers' responses to open-ended survey questions, asking them about what would improve their shopping experience, or change their grocery shopping behaviour. Some consumers explicitly called for a Discounter¹⁹ to enter the market.

¹⁹ In this report we generally use "Discounter" to refer to Aldi and Lidl. We note that elsewhere this term is often used more widely to also cover further low-cost grocery retailers such as Home Bargains and B&M, as well as others.

Table 1 Key themes in open-ended survey responses

Theme (search terms)	What would improve your experience of grocery shopping in Jersey?	Is there anything that would significantly change your grocery shopping behaviour?
Prices ("price", "affordability", "cheaper", "expensive")	45%	32%
Range ("range", "variety", "options", "availability")	19%	7%
Quality ("quality", "fresh")	17%	12%
Service ("service", "friendly")	3%	2%
Calls for a Discounter ("discounter", "lidl", "aldi")	8%	5%

Source: Consumer Survey

Note: Percentages show the proportion of open-ended responses that contained at least one of the search terms.

These views provide additional context to our areas of focus in this market study – to understand grocery prices in Jersey, whether consumers' experiences are the result of a competitive market, and what barriers a new retailer (including a Discounter) might face to enter the market.

The findings of our demand side assessment are broadly consistent with the findings of the recent Jersey Retail 2023 Report, which also reported low satisfaction scores and highlighted price transparency as a key concern for many Jersey consumers.²⁰

4.2 Supply side assessment

Groceries in Jersey are available from a range of fascia under a variety of ownership models, with varied propositions, across several 'channels'. The following sections explore these in more detail. Our analysis has been supported by information obtained from on-island grocery retailers, however, for practical reasons it was necessary to limit the scope of our information gathering, in particular for smaller retailers (independent convenience stores, market stalls and direct-to-consumer farm shops), given that our information requests would impose a disproportionate burden on these smaller grocery retailers.

The nature of supply to Jersey

An important feature of the Jersey market is that most grocery products are imported,²¹ which generally involves shipping goods across the Channel from the UK. As we explore in Section 5, this has important cost and price implications in the Jersey grocery market.

²⁰ Jersey Retail 2023 Report. 4insight, 2023.

²¹ Reportedly 80% of food in Jersey is imported (see: Local food production 'needs to be ramped up immediately'. Jersey Evening Post, 2020), compared to 46% in the UK (see: United Kingdom Food Security Report 2021. Defra, 2021).

UK grocery retailers tend to use road freight to transport inventory from wholesalers or manufacturers to distribution centres or warehouses, and then to stores. For Jersey retailers there are additional steps. Typically inventory is transported by road freight to Portsmouth, at which point it may be held in a depot. From there, lorries may be transported to Jersey via “roll-on, roll-off” ferries, or containers may be transported to Jersey via “lift-on, lift-off” ships. Once the inventory arrives in Jersey, it is transported to stores (potentially via warehouses) using road freight.

The additional steps to transport goods to Jersey consumers means greater freight costs for Jersey grocery retailers. It also means they are more exposed to supply disruptions, for example when sea crossing conditions are poor. The Authority previously carried out a market study into the freight logistics market, with a focus on supply resilience, in 2022.²²

Operator market shares

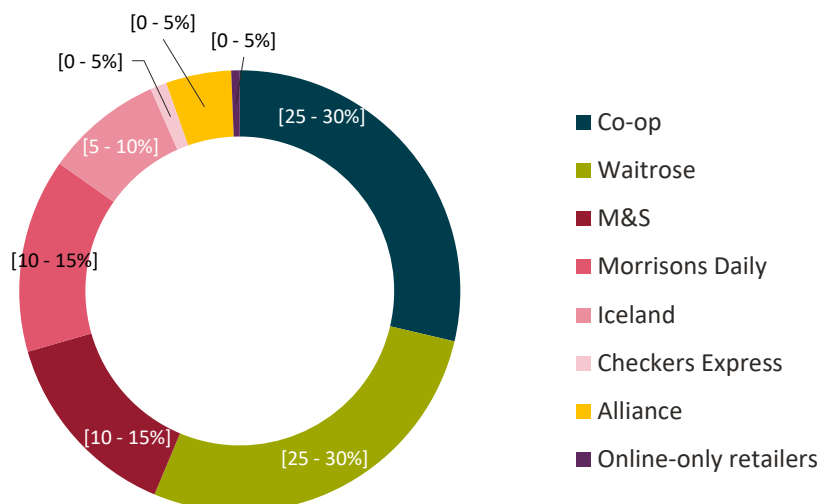
As the Consumer Survey highlights, groceries in Jersey are available through a range of retailers. The main grocery fascia are Waitrose, Co-op, M&S, Iceland, Morrisons Daily²³ and Alliance – plus a variety of small convenience stores, market stalls and farm shops. In addition to the physical retailers, there are several online retailers on the island, including Order-It and Valley Foods; and UK-based online retailers who ship to Jersey, including Amazon and HelloFresh.

The estimated market shares are shown in Figure 4. The market shares figures are consistent with the Consumer Survey in highlighting that Co-op and Waitrose as the most commonly used fascia, followed by other smaller competitors.

²² See case M-002 on the Authority’s website.

²³ We note that Morrisons Daily stores, and several online grocery operators are new to Jersey since the 2014 Market Study.

Figure 4 Market shares based on values of grocery sales in Jersey



Source: Retailer data; Consumer Survey

Note: Sales market shares based on latest financial year data provided by retailers, and excludes independents. Online-only retailers' sales for market share calculation are derived by scaling up retailer data on online sales by the relative shares of online market implied by the Consumer Survey.

It is notable that none of the UK “Big Four” (Tesco, Sainsbury’s, Asda, and Morrisons),²⁴ nor the low-cost retailers operating in the UK (e.g. Discounters, B&M and Home Bargains) are present in Jersey. This is similar to Guernsey, where none of these grocery retailers are present. Tesco is present on Isle of Man, but the other retailers are not (and neither is Waitrose on Isle of Man). This may well be a function of the size of the market and inherent barriers to operating on a small island – see Section 7.

While the data shows that no retailer has more than a c.40% market share (even accounting for the fact that Sandpiper owns multiple fascia), it highlights a more concentrated market than the UK. The top three fascia by market share make up more than 70% of sales,²⁵ compared to c.55% for the UK,²⁶ and noting that M&S, Iceland, Morrisons Daily, and Checkers Express are all owned by Sandpiper, the market becomes more concentrated with the three largest retailers accounting for up to c.90% of sales (excluding independents). This is not in and of itself a competition concern, but confirms the importance of understanding pricing and profitability of these larger retailers – which we explore in later sections.

²⁴ We note that Morrisons Daily stores are present in Jersey, but since these are franchises owned by Sandpiper CI, and therefore not actually operated by Morrisons plc, we do not consider them to represent the presence of a Big Four brand.

²⁵ These operators are CI Co-op, Waitrose and M&S.

²⁶ These operators are Tesco, Sainsbury’s and Asda. Source: Kantar Worldpanel 12 weeks ending 19 March 2023.

Retail channels

Consumers in Jersey can purchase groceries through several ‘channels’ – from larger supermarkets, to smaller convenience stores, and online – as shown in Table 2. Retailer presence varies across these channels. For example, Co-op offers groceries through multiple retail channels, including larger stores, small convenience stores and online; whereas Waitrose only operates larger stores.

Table 2 Size and shape of Jersey retailers

Grocery channel	Main retailers	Store count
Larger stores ($> 1,400m^2$)	Waitrose, Co-op	5 (none greater than $2,500m^2$)
Mid-size stores ($280 m^2 - 1,400m^2$)	Co-op, Sandpiper (M&S, Morrisons Daily, Iceland), Alliance	20
Convenience ($< 280m^2$)	Co-op, Sandpiper (M&S, Morrisons Daily, Iceland, Checkers Express), Alliance	24 (plus many independents, market stalls, farm shops etc.)*
Online	Co-op, Order-It, Valley Foods	N/A

Source: Frontier Economics analysis of retailer data and public information

Note: *For example Google Maps suggests there are at least 70 convenience stores/stalls run by businesses not mentioned in our “Main retailers” column. Store breakdown based on CMA store size categories.

Jersey is as well-served in terms of number and size of stores compared to similar markets in the UK.²⁷ In these similar UK markets, we also see that only a sub-set of grocery retailers operate larger stores, with more fascia in the smaller store channels.

Jersey consumers can buy groceries online through several retailers, both on and off island. The type of online offer varies among the on-island options: Co-op offers next-day delivery and charges a flat £5 delivery fee; Order-It offers same-day delivery on orders placed before 8pm and charges £4 for deliveries worth up to £30 (delivery is free on orders over £30); and Valley Foods delivers orders above its minimum spend of £75 Monday to Friday and offers same-day delivery on orders placed before 6am, it does not have a delivery fee but may apply a 25p per item charge for ‘picking’²⁸ in some cases.²⁹

²⁷ Analysis based on a review of the fascia and stores operated in St Albans and Guildford in the UK, which are somewhat similar to Jersey in terms of income and population size. St Albans has three larger stores (two larger than $2,800m^2$), six mid-sized stores and at least 12 convenience stores. Guildford has three larger stores (two larger than $2,800m^2$), five mid-sized stores and at least 12 convenience stores. We note that unlike in Jersey it’s possible to drive to nearby towns in the UK with additional stores.

²⁸ Picking refers to the process of retailer employees gathering and/or bagging grocery products in an online order.

²⁹ Commentary on online offers based on retailer public information and retailer interviews.

In comparison to the UK the choice of online grocery offers is narrower in Jersey. Notably the 'Big Four' (who all operate online in UK), Ocado, and rapid delivery services such as Deliveroo and Uber Eats are not present in Jersey.³⁰

The Consumer Survey highlighted Amazon as the most widely used, albeit only for 'ambient'³¹ grocery (as Amazon Fresh is not available in Jersey); followed by Order-It, Co-op, HelloFresh, Valley Foods and a string of smaller retailers. However, only 29% of Consumer Survey respondents said they shop for groceries online, and only 14% of these suggested they spend more online than in-person.

Customer propositions

Jersey's various fascia have diverse propositions to meet consumer needs. Figure 5 summarises the different propositions of Jersey fascia in terms of missions served, and their relative popularity among value- and quality-oriented consumers.

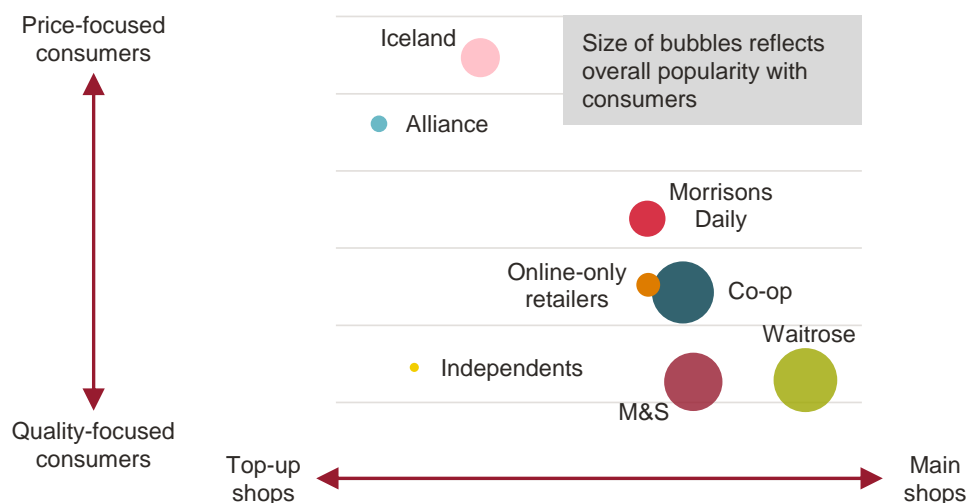
Co-op and Waitrose, with their larger stores, are the main destinations for consumers doing a 'main shop' (consistent with 2014 Market Study findings). Whereas Alliance and Independents are more likely to be used by consumers for smaller or supplementary shopping trips.

Iceland and Alliance are markedly more popular among value-oriented consumers, whereas Waitrose and M&S are more popular among quality-oriented consumers. There is a clear value hierarchy across the three main Sandpiper fascia, with M&S focused on quality, Morrisons Daily in the middle and Iceland focused on value.

³⁰ We discuss the development of online groceries and rapid delivery in Jersey further in Section 5.

³¹ Ambient products or 'pantry goods' are grocery products that can be stored at room temperature, such as dried pasta. We note in particular that Jersey is served by large logistics providers such as UPS, DPD and Evri alongside Jersey Post.

Figure 5 Fascia propositions implied by consumer shopping behaviours



Source: Frontier Economics analysis of retailer data and Consumer Survey

Ownership models

The Jersey retailers span a variety of operating models, some directly controlled by UK retailers but the majority are independent. These varied models shape the grocery propositions on the island, including pricing and product ranges.

- **Direct links to UK retailers** – Waitrose branches in Jersey are owned by UK Waitrose, which itself is owned by John Lewis and Partners. Co-op, which is based in the Channel Islands, affiliates with the UK's Co-op Group and sells Co-op Group products. Amazon UK and HelloFresh also deliver to Jersey, from their operations in the UK.
- **Franchised UK retail fascia** – M&S, Iceland and Morrisons Daily are operated under franchise by Sandpiper. The UK companies retain different levels of control over the use of the brand, but ultimately Sandpiper controls pricing. UK promotions are not always applied.
- **Independent retailers** – Alliance has a wholesale arrangement to source products from UK Waitrose and Co-op Group. Valley Foods is supplied by Nisa, a wholesaler owned by Co-op Group.³² Previously, certain Jersey retailers had wholesale arrangements to stock Tesco and Sainsbury's products. However, these are no longer in place as Tesco and Sainsbury's have both ceased to operate their wholesale businesses outside the UK.³³

³² See: <https://valleyfoods.je/about-us/our-suppliers/>; <https://orderit.je/>; and <https://alliance.gg/> [Last accessed: 11/04/2023]

³³ See: <https://www.betterretailing.com/symbol-group-news/sainsburys-criticised-over-broken-wholesale-promises/>; and <https://www.retailgazette.co.uk/blog/2021/06/tesco-to-shutter-international-wholesale-business/> [Last accessed: 24/04/23]

Other considerations

Goods and Services Tax (GST)

The price of groceries in Jersey includes a sales tax on goods, which is a different approach to Guernsey or the UK where most food products do not incur a sales tax:

- Jersey operates a 5% tax on sales of goods and services (GST);
- Guernsey does not operate a goods and services tax; and
- the UK operates a 20% Value Added Tax (VAT) on good and services, but most food products are 'zero-rated'. Exceptions include alcoholic drinks, confectionery, ice cream, soft drinks, crisps and savoury snacks.³⁴

Many of the grocery products that attract VAT in the UK are those considered to be 'junk foods'.³⁵ As a result, 'junk food' in the UK attracts more tax than in Jersey (20% vs 5%), but most other grocery products attract less tax in the UK than in Jersey (0% vs 5%).

However, it is important to note that GoJ provides annual payments, through the Community Costs Bonus, to help households that are just above the Income Support level in Jersey with the cost of GST on food.

For imported goods, GST is currently collected on sales worth £60 or more (the threshold was recently lowered from £135).³⁶ This means that off-island retailers such as Amazon and HelloFresh are not required to charge GST unless they are part of a large transaction. As GST is not applied consistently across all grocery sales, this is a distortion of competition in the Jersey grocery market. However, on-island retailers were unable to provide any quantitative evidence of the effect of this distortion. We consider that the effect of this distortion is therefore likely to be small, especially given the recent reduction in the threshold for collecting GST.

Milk regulation

Imports of fresh milk are banned by long-standing legislation to protect the dairy industry. Jersey Dairy, established by the Jersey Milk Marketing Board (JMMB) is responsible for the collection, quality control, production, distribution, sales and marketing of milk produced within the island. We note that another dairy previously operational in Jersey, Classic Herd, has now closed.³⁷

³⁴ See: <https://www.gov.uk/guidance/food-products-and-vat-notice-70114#general-vat-liability-rules> [Last accessed: 22/05/2023]

³⁵ See for example: <https://www.foodmanufacture.co.uk/Article/2015/09/02/Health-food-firm-slams-VAT> [Last accessed: 22/05/2023]

³⁶ See: <https://www.gov.je/TaxesMoney/GST/GSTCustomers/pages/declaringpaying.aspx> [Last accessed: 11/04/2023]

³⁷ See: <https://www.jerseyeveningpost.com/uncategorised/2019/07/24/government-blamed-for-classic-herd-shop-closure/> [Last accessed: 29/03/2023]

JMMB essentially sets prices for carton milk in Jersey.³⁸ This regulation leads to higher prices for milk in Jersey compared to UK options, as shown in our pricing analysis (see Figure 8), and as explored in the 2014 Market Study where milk prices were found to be 40-60% higher on average.

4.3 Key features of the Jersey grocery market

Our overview of the grocery market in Jersey has identified several key features. To summarise:

- Jersey is a small, island market with a relatively affluent population, however, there is a group of relatively low-income consumers.
- The majority of consumers said they either felt neutral or satisfied with the grocery shopping experience in Jersey. However, the most budget-conscious consumers report being unsatisfied with their grocery shopping experience, and have called for a 'budget' competitor.
- Consumers tend to use a variety of fascia. This suggests that consumers are willing and able to access a variety of different grocery retailers, which is a positive indicator of market competition.
- Jersey has a variety of grocery retailers with diverse propositions, and no retailer has more than c.40% market share. However, the market is more concentrated than in the UK and lacks the lower price retailers – notably the 'Big Four' and Discounters.
- The online grocery channel has grown in recent years and is served by several retailers with varying offers, but is still a relatively small share of total grocery spending.
- The nature of supplying a small island poses a challenge for grocery retailers in Jersey, and is likely to increase their costs. Some Jersey-specific policies raise some grocery prices - most notably the sales tax on food items, plus the requirement to supply only locally-produced milk.

³⁸ The impact of Jersey milk regulation was considered in the 2014 Market Study. Since the regulations have not changed substantially since then, we have not re-assessed their impact in this report.

5 Understanding retailer cost drivers and profitability

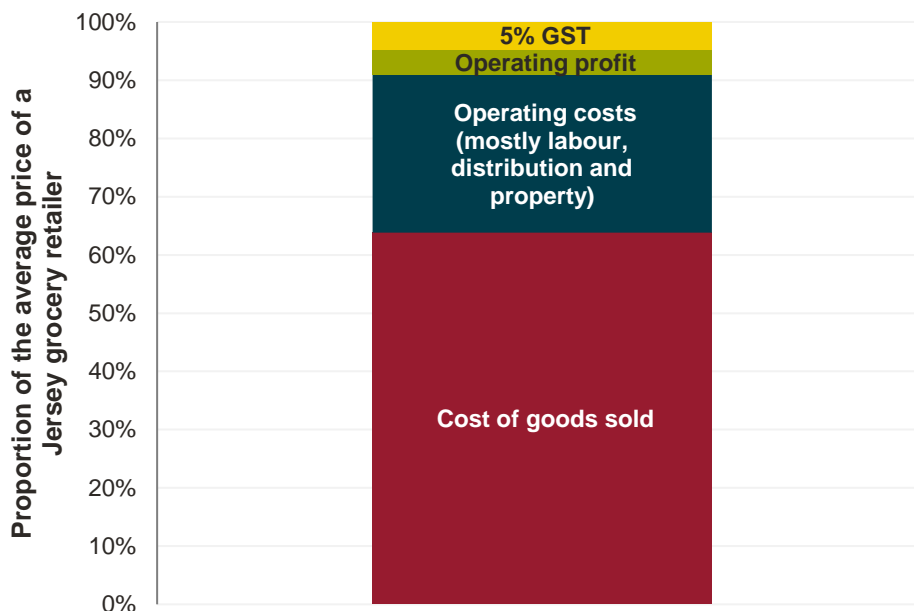
Some of the distinctive features of the Jersey market, notably the nature of operating on a small island, mean that grocery retailers face higher costs than UK retailers. In this section, we assess retailers' costs and levels of profitability in Jersey, and how this compares to the UK. The analysis in this section also feeds into our discussion of Jersey grocery prices in Section 6, specifically the extent to which differences between grocery prices in Jersey and in the UK are explained by grocery retailers' incremental costs of operating in Jersey. Below, we set out: the component parts of a typical grocery retailer's price; Jersey-specific costs; Jersey grocery retailers' profitability; and the implications of incremental costs on grocery prices.

5.1 The component parts of a typical grocery retailer's price

Grocery retailers are at the final step in a complex 'value chain'. Grocery retailers' role is to shape the range of products they stock by considering consumer demand, product availability, and cost. The previous steps in this chain include the production of raw materials by farmers and primary producers, followed by the processing and manufacturing of these raw materials into finished food products by food manufacturers.

Figure 6 provides an illustrative price breakdown for a typical Jersey grocery retailer, showing the cost stack, operating profit and GST.

Figure 6 Illustrative breakdown of Jersey grocery prices



Source: Frontier Economics illustration based in Jersey retailer input, and public information (e.g. Navigating the market headwinds: The state of grocery retail 2022. McKinsey, 2022)

The retail 'cost stack' (i.e. the different costs faced by grocery retailers, and their relative sizes) reflects grocery retailers' place in the value chain. The largest component of a grocery

retailer's cost stack is the "Cost of Goods Sold" (COGS) – this is the wholesale cost of the retailer's inventory, which is shaped by the supply markets. The conditions that the supply markets face, such as the costs of production and raw material costs, ultimately dictate the price paid by retailers for their inventory. Additionally, supplier brand power can also impact the cost of goods for retailers, with well-known brands commanding higher prices (and earning higher margins) than lesser-known or 'own label' suppliers.

The other components of the cost stack are collectively referred to as 'operating costs' – i.e. the costs of running the retailer's day-to-day activities. The most significant among these are labour, property and distribution costs. Labour costs include the wages of staff working in stores and warehouses; property costs relate to owning (or renting) and operating stores, including energy and maintenance; distribution costs refer to the transport of products (including freight from Portsmouth to Jersey). In addition, there are other smaller operating costs that grocery retailers face, such as marketing, technology, wastage and shrinkage (i.e. the cost of products that cannot be sold).

The grocery retailer sets a pre-tax price for the product that is the sum of the costs in its cost stack plus an operating profit margin.³⁹ Finally, the price consumers ultimately see and pay is determined by adding on GST.

Variation in costs for different retail channels

Grocery retailers' operating costs vary across different retail channels.⁴⁰ Large stores tend to have the lowest average operating costs, so long as they achieve sufficiently high customer volumes. Convenience stores typically incur higher property costs (i.e. rent per square meter).⁴¹ Meanwhile the online grocery channel involves higher labour costs, notably in the 'store pick' process and the need for delivery drivers – see Section 7.3. Online grocery services can dilute grocery retailers' overall profit margins if these higher costs are not recovered through higher prices or delivery fees.⁴²

5.2 Jersey-specific costs

Section 4.2 identified supply-side features of the market that could increase costs for Jersey grocery retailers. It is important to understand these because, in a well-functioning market,

³⁹ We discuss operating profits more in Section 5.3 below.

⁴⁰ We do not discuss the rapid delivery channel here, since this is usually carried out via other platforms (e.g. Deliveroo, Uber Eats and Getir in the UK), and there is not currently a major rapid delivery service present in Jersey.

⁴¹ See for example: <https://news.sky.com/story/shopping-at-convenience-stores-instead-of-bigger-supermarkets-could-cost-you-an-extra-800-a-year-12806521> [Last accessed: 14/04/2023]

⁴² See: <https://www.ft.com/content/b985249c-1ca1-41a8-96b5-0adcc889d57d>; <https://www.voice-online.co.uk/news/sponsored-news/2022/05/03/how-the-online-grocery-boom-has-affected-supermarket-profits/>; and <https://www.chargedetail.co.uk/2021/10/11/uk-supermarkets-losing-hundreds-of-millions-in-profits-thanks-to-online-grocery-shift/> [Last accessed: 29/03/2023]

prices will broadly reflect the underlying costs borne by firms, including a 'normal' level of profit required to meet cost of capital: in other words, where costs are higher, prices will be higher.

Cost differences mean Jersey prices will be a further c.10% higher than in the UK

Through our interviews with grocery operators located both on and off Jersey, we heard that grocery retailers situated in Jersey incur incremental costs to those faced by their UK counterparts. We have analysed data from the retailers and publicly available sources to estimate the size of these incremental costs. This is summarised in the table below.

Table 3 Incremental costs of operating in Jersey for grocery retailers

Cost item	Drivers of incremental costs in Jersey	Indicative incremental effect on prices
Distribution	<ul style="list-style-type: none"> Principally the sea freight from Portsmouth to Jersey 	<p>5% - 8% (Based on retailer data)</p>
Labour	<ul style="list-style-type: none"> Higher minimum wage in Jersey⁴³ Retailers suggested higher cost of living (notably from housing) and tight labour market necessitate higher wages We understand that French products (e.g. Carrefour products sold by Co-op) require manual relabelling 	<p>2% - 5% (Based on retailer data and publicly available data on UK and Jersey wholesale/retail sector earnings)*</p>
Property	<ul style="list-style-type: none"> Higher rents in Jersey compared to UK average One retailer compared Jersey retail rents to London retail rent 	<p>c.1% (Based on retailer and publicly available data)</p>
Wastage	<ul style="list-style-type: none"> Need for shipment of goods across the channel means fresh products arrive on shelves with a shorter remaining shelf-life 	<p><1% (Based on retailer data, only impacts fresh products)</p>
COGS	<ul style="list-style-type: none"> Retailers provided evidence that locally-sourced goods tend to be more expensive than imported goods 	<p>Negligible (Differences may be substantial for individual products, but average effect will be low)</p>

Source: Retailer interviews; ONS; Statistics Jersey; desk research

Note: *Data from multiple Jersey retailers suggest that labour costs range from 8-12% of revenues, meanwhile public data from ONS and Statistics Jersey on average weekly earnings in 2022 in the retail and wholesale sector suggest that

⁴³ Minimum wage was £10.50 as of January 2023, compared to £5.28-£10.42 in the UK (depending on age).

Jersey retail earnings are about 40% greater than UK retail earnings – together this suggests that retailers may face incremental labour costs in Jersey equivalent to 2.4-4.8% of revenue.

Media coverage in recent months has suggested that a French grocery retailer could enter the Jersey market.⁴⁴ In this context, we note that we also heard that importing French products to Jersey may also incur additional fees (up to 5%) for a grocery retailer,⁴⁵ such as needing to pay for additional customs checks, or for product relabelling.

Table 3 suggests that incremental costs faced by grocery retailers operating in Jersey – most notably freight costs – will result in higher grocery prices in Jersey.

5.3 Jersey grocery retailers' profitability

We have found that the operating margins of Jersey grocery retailers were comparable to those of UK grocery retailers – in almost all cases less than 5% of prices.⁴⁶ As the UK grocery market is clearly competitive (see our discussion of the CMA's recent findings in Section 2) this suggests that **Jersey grocery retailers are not making 'excess' profits.**⁴⁷ This is consistent with the difference in grocery prices between comparable UK and Jersey retailers being fully explained by incremental Jersey-specific costs (as well as tax differences) – see Section 6.

Given low single-digit operating margins, grocery retailers will have had little choice but to pass on the considerable inflation in wholesale costs experienced internationally in recent times – see Section 6.4. The data provided by Jersey grocery retailers does not suggest that recent high levels of inflation have been caused by an increase in margins. In other words, **grocery price inflation is not the result of a lack of competition among grocery retailers in Jersey.**

5.4 Summary and implications

Jersey grocery retailers face higher costs than UK retailers. Specifically, incremental costs – mostly labour and freight – account for a c.10% price difference to the UK. Jersey grocery retailers are not making 'excess' profits, which means they will have had little choice but to pass on the considerable inflation in wholesale costs to consumers. Therefore, neither higher prices in Jersey compared to the UK, nor recent inflation in grocery prices result from a lack of competition among retailers. Jersey grocery retailers' consistently low operating profit

⁴⁴ See for example: <https://jerseyeveningpost.com/news/2023/01/02/negotiations-to-bring-french-supermarket-to-jersey-progressing/> [Last accessed: 17/04/2023]

⁴⁵ One retailer told us it cost 5% more to stock French products than UK products, but could not provide supporting data.

⁴⁶ We assessed the operating profits of Aldi, M&S, Sainsbury's and Morrisons in the UK, based on financial information available in their latest annual reports. We note that operating margins of 3% to 5% is consistent with wider commentary on UK grocery retailer profits. See for example: <https://www.ft.com/content/ba9a9e6f-c243-4d61-88fe-c78375b9410e> [Last accessed: 17/04/2023]

⁴⁷ We have not carried out a full economic profit analysis for Jersey retailers, given limited powers of data collection. However, we consider our analysis of operating profits is sufficient to conclude retailers are not making excess profits.

margins suggest that any reduction in the additional costs that retailers face (particularly freight) would likely be reflected in lower prices for consumers.

In light of some consumers' calls for a low-cost grocery retailer to enter the market, it is important to note that, if a low-cost grocery retailer from the UK did enter the Jersey market, it would face the same additional costs as existing retailers – so their prices would also be higher than those in the UK. The same would be true for French grocery operators, but they would also face other costs such as relabelling costs.

6 Prices and inflation

Jersey grocery retailers face higher costs than UK retailers, but make similar levels of profit, suggesting that their prices must be higher, to reflect these higher costs. However, many Jersey consumers felt grocery prices are too high in Jersey.⁴⁸ To understand the extent to which prices are in fact higher in Jersey, and whether differences are reflective of the incremental costs explored in Section 5, we carried out: a price comparison across fascia within Jersey, both of individual products and a basket of goods; a price comparison of Jersey products with the UK; and an analysis of inflation. In the rest of this section we discuss the results of this analysis.

6.1 Price comparison across fascia within Jersey

We assessed the extent to which prices vary across fascia, to better understand how competition is working in the Jersey grocery market; first a comparison of individual product prices for selected products, then a whole basket of goods prices comparison.

Our pricing analysis is based on a set of products ('basket of goods') chosen to be representative of the requirements of a household.⁴⁹ Basket of goods analyses are a convenient and effective way to summarise grocery prices across fascia that stock hundreds or thousands of products, since they involve selecting a narrower set of grocery products, and finding out how much these products would cost at various fascia.⁵⁰ Our basket contained 34 products, from a mixture of product categories and brands. Unless we were comparing specific branded products (e.g. Heinz Baked Beans), we selected the cheapest price available, subject to other requirements (e.g. size) being met.

We note that retailers raised concerns with the accuracy of the JCC price comparison data we used in our analyses. Indeed, while preparing the data so that we could carry out a robust analysis below, we corrected for some anomalies. For more detail on our methodology, see Annex B.

Product-specific price differences across Jersey grocery fascia

A comparison of the individual product prices in our basket showed that there is no clear low-cost retailer in Jersey with consistently lower prices – as reflected in Table 4. Instead, the cheapest fascia for a given product varies a lot, meaning there are potentially large benefits

⁴⁸ In the Consumer Survey, shopping for groceries in person rated 5.7 (mean score, out of 10) for overall shopping experience and scored particularly low in terms of value for money (3.96).

⁴⁹ We note that there is no true "average" basket of goods, and our analysis is not meant to strictly reflect what we expect a given consumer to actually spend on groceries in a given week. We defined our basket of goods to cover essential grocery products, and to be broadly consistent with the basket of goods used in the 2014 Market Study.

⁵⁰ Inflation tends to be calculated on the bases of price indices, which are constructed using a basket of goods approach. Basket of goods analyses are generally used in the context of the grocery market to assess prices across fascia – see for example: <https://www.thegrocer.co.uk/stores/the-grocer-33> [Last accessed: 14/04/2023]

from shopping around. Indeed, the Consumer Survey showed that consumers spread their in-person grocery shopping across just under four fascia on average. Making it easier to find the cheapest products (e.g. by using JCC's price comparison service) could help maximise these benefits - see Section 8.

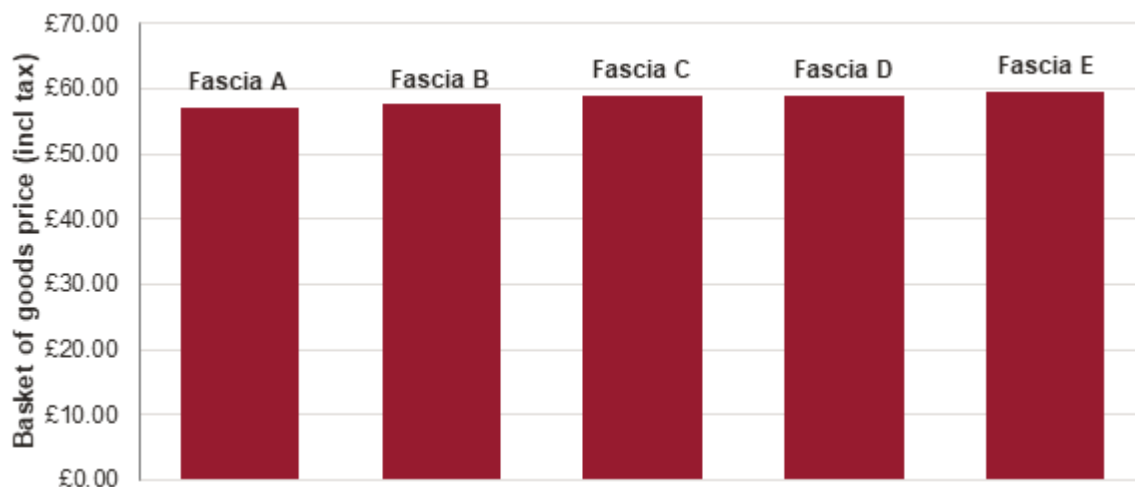
Table 4 **Cheapest fascia for a given product in our basket in Jersey**

Jersey grocery fascia	# products for which it was among Jersey's cheapest	% products for which it was among Jersey's cheapest
Fascia A	10	29%
Fascia B	11	32%
Fascia C	7	21%
Fascia D	7	21%
Fascia E	7	21%

Source: Frontier Economics analysis of JCC price comparison data.

Whole basket of goods price differences across Jersey grocery fascia

The basket of goods analysis also allows us to compare the overall cost of an equivalent shopping basket across fascia. To do this, we added up the prices of the goods in our basket, giving a greater weight to food (particularly fresh food) products compared to non-food products, reflecting that consumers purchase these more frequently.

Figure 7 Price of our basket of goods across in-person Jersey grocery fascia

Source: Frontier Economics analysis of JCC price comparison data

Note: Prices are inclusive of GST. See Annex B for more detail on our methodology. One retailer was dropped as an outlier, based on inconsistencies with Consumer Survey and interview findings.

Figure 7 shows that, for a whole basket of essential, everyday grocery products, most Jersey fascia offer very similar prices. Our overall basket price varied by less than 5% (c. £2.50) across the different fascia. Again, the absence of a clear low-cost retailer offering consistently lower prices is apparent.

This suggests that while Jersey grocery retailers are making different decisions on pricing individual products, the overall basket prices are similar, which is consistent with overall decisions needing to be cost-reflective given the slim profit margins we identified in Section 5.

6.2 Price comparison of Jersey products with the UK

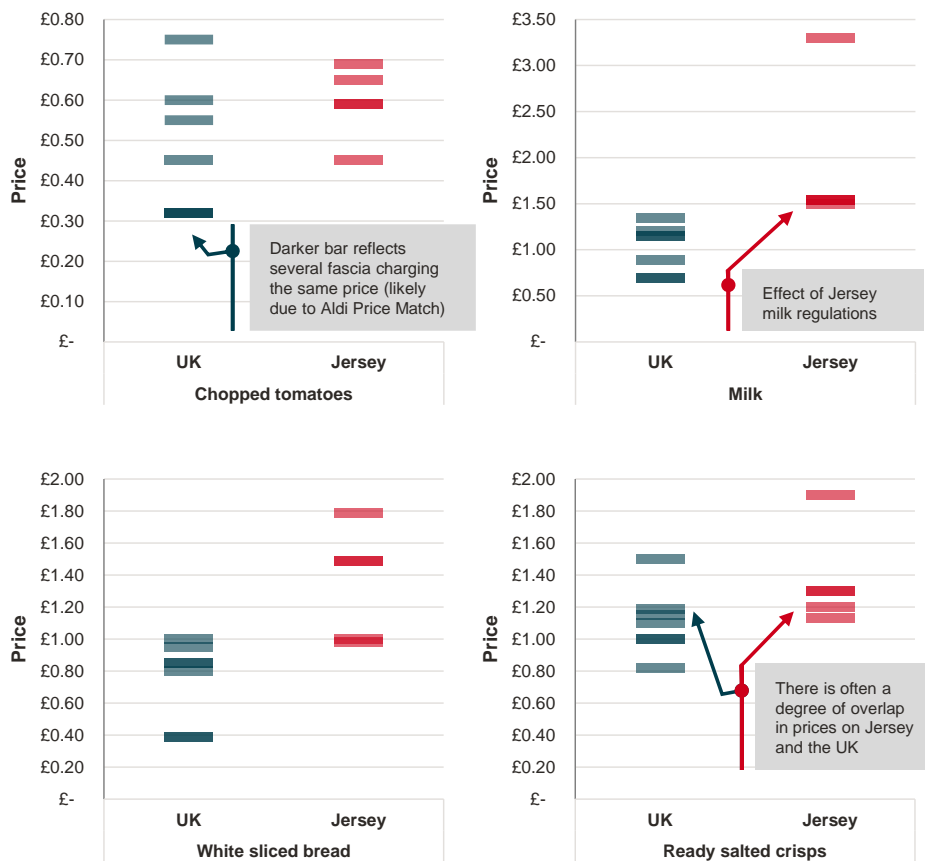
The Consumer Survey found that 95% of Jersey consumers who had shopped in the UK in the last 12 months indicated that groceries in Jersey are generally more expensive than in the UK. And our analysis in Section 5 found that higher operating costs could add c.10% to Jersey retailers' prices, compared to UK prices. Therefore, we extended our product - and basket-level price comparisons above to assess how grocery prices compare between Jersey and the UK. Specifically, we incorporated into our analysis several key grocery retailers operating in the UK, notably the Big Four, the UK branches of Waitrose and Co-op, and the Discounters.⁵¹

⁵¹ The products we considered in our basket of goods analysis were the same for the UK retailers as for the Jersey retailers. The data we used, and further detail on how we calculated the cost of our basket of goods for the UK retailers is described in Annex B.

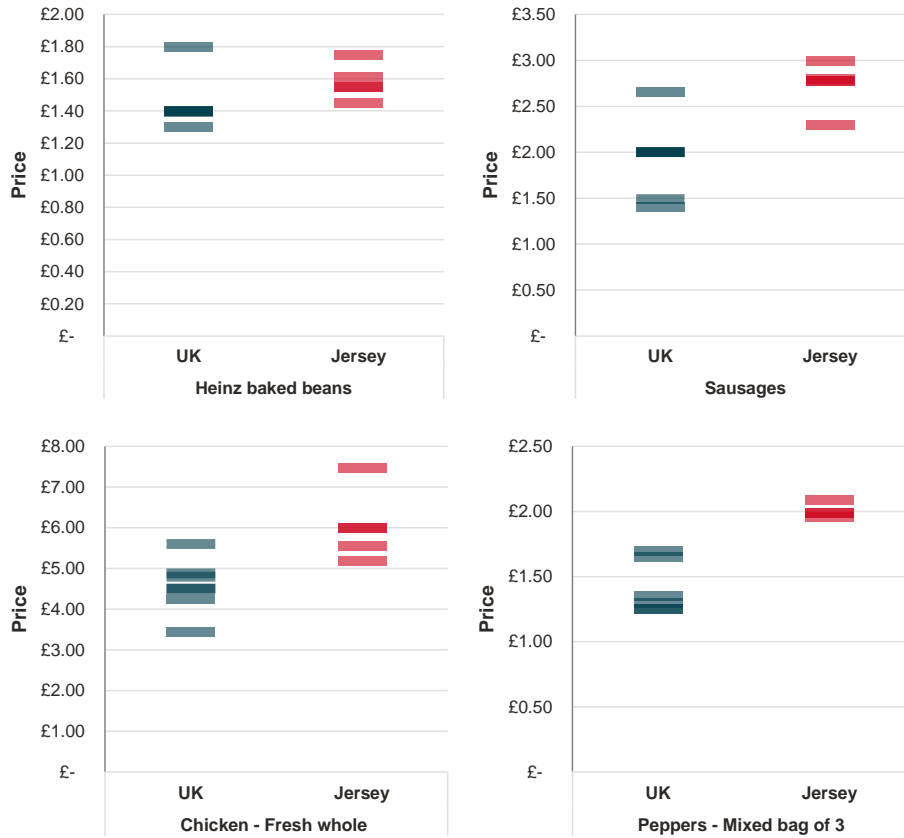
Product-specific price differences between Jersey and the UK

We also compared the range of prices in Jersey to that on the UK – see Figure 8. While the lowest prices tended to be in the UK – where they were most often found at the Discounters, with the Big Four often matching the price⁵² – price ranges often overlapped. While Jersey prices may be higher on average (as we explore below), some products may actually cost the same or less in Jersey than they would in certain retailers in the UK.

Figure 8 Range of price across fascia for selected products in Jersey and UK



⁵² As we explained in Section 7.1, the growth of the Discounters in the UK has led to a sharper focus low-price ranges, and promotional and price matching campaigns.



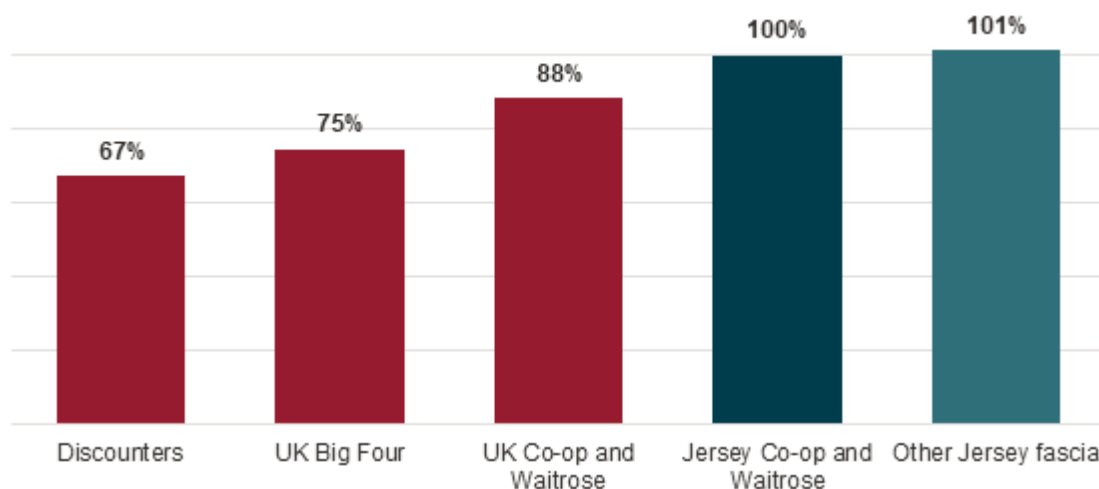
Source: Frontier Economics analysis of JCC price comparison data, and Trolley.co.uk/UK retailer website data

Note: Darker bars represent overlap in prices of multiple fascia. Choice of products is arbitrary to illustrate a variety of different price ranges.

Whole basket of goods price differences between Jersey and the UK

Extending our basket of goods analysis helped us assess the overall difference in grocery prices between the UK and Jersey. Our analysis in Figure 9 shows that **grocery prices are higher in Jersey than in the UK**, as suggested by our analysis in Section 5.

Figure 9 Whole basket of goods prices relative to Jersey Co-op and Waitrose



Source: Frontier Economics analysis of JCC price comparison data, and Trolley.co.uk / UK retailer website data

Note: Percentages refer to the average basket of goods price across the relevant fascia, as a proportion of the average across Jersey Co-op and Waitrose. See Annex B for more detail on our methodology.

Our overall basket of goods was cheapest at the Discounters, where the total price was c.33% lower than the average among Jersey retailers in our analysis. This could have a disproportionate effect on some lower-income consumers but does not tell us much about grocery competition in Jersey. As explained further in Section 7.1, Discounters are able to achieve much lower prices due to their low-cost operating model that they would be unlikely to be able to replicate fully in Jersey given a lack of suitable sites. As discussed in Section 5, even if a Discounter were present in Jersey they would be unlikely to operate at the same low prices as in UK due to higher operating costs.

The difference in grocery prices with the Big Four UK retailers also appears substantial, with our basket costing c.26% less at these retailers than the average in Jersey. However, this result may overstate the average difference in grocery prices at the Big Four UK retailers and Jersey retailers. As we discuss in Section 7.1, the Big Four often match the prices of prominent grocery essentials – the likes of those specifically selected in our basket of goods – to the Discounters' low prices for those products.⁵³ A much wider basket may show a smaller price difference to the average in Jersey, since it would contain fewer price-matched products.

The most relevant price comparison for assessing grocery competition in Jersey is likely to be that between UK branches and Jersey branches of Co-op and Waitrose. Our analysis suggests that grocery prices at Co-op and Waitrose stores in the UK are c.12% cheaper than at Co-op and Waitrose stores in Jersey.

⁵³ The likely impact of Aldi price match is illustrated in Figure 8, above, which shows that multiple UK retailers charge the same price for certain products.

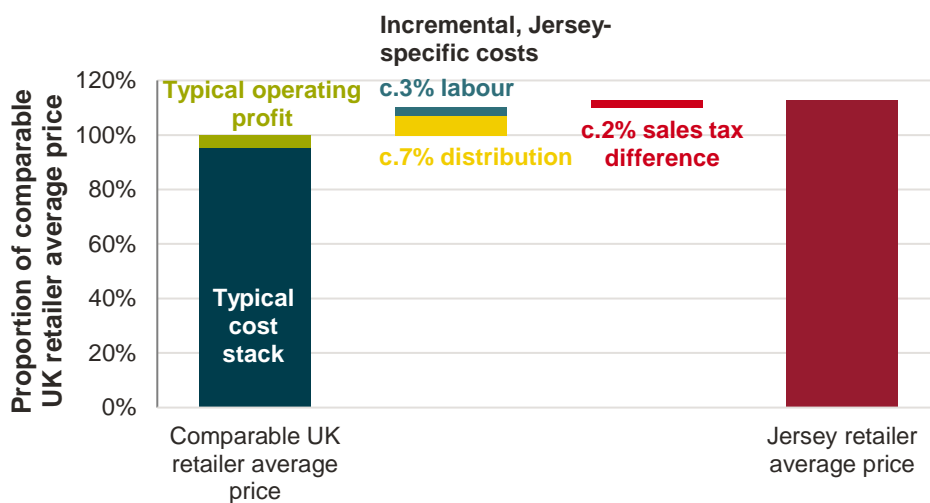
Causes of the grocery price difference with the UK

Our main finding of c.12% higher grocery prices in Jersey compared to the UK is a material difference. However, it is consistent with both our understanding of retailers’ incremental costs of operating in Jersey and tax differences between the UK and Jersey.

Analysis in Section 5 suggested that higher costs for Jersey grocery retailers – notably from freight and labour – may increase prices by c.10%. Meanwhile, as discussed in Section 4.2, GST directly raises Jersey grocery prices compared to the UK. When we compare basket prices *excluding* tax (i.e. stripping out GST from Jersey prices, and VAT from UK prices) of Co-op and Waitrose stores between the UK and Jersey, we find the difference in prices is lower (c.10%).⁵⁴ This implies that tax differences mean, on average, Jersey prices will be c.2-2.5% higher than in the UK.

Therefore, our analyses suggest **the difference in grocery prices between comparable Jersey and UK retailers is fully explained by incremental costs and tax differences** inherent to the Jersey grocery market. This is illustrated in Figure 10.

Figure 10 Illustration of how incremental costs explain the difference in grocery prices between UK and Jersey



Source: Frontier Economics illustration based on retailer data

6.3 Price comparison with Guernsey

We have not carried out a quantitative analysis of price differences with Guernsey. Less than 0.1% of respondents to the Consumer Survey referred to prices being lower in Guernsey; the

⁵⁴ As explained in Section 4.2, 5% GST is added to all grocery products bought in Jersey, while most (but not all) food grocery products are zero rated for VAT in the UK. As a result, Jersey consumers pay a higher rate of tax on their groceries than UK consumers. The analysis in Section 6.2 looked at basket prices including tax.

2014 Market Study did not find a significant difference in prices with Guernsey, and inflation in groceries has not differed much between Jersey and Guernsey in recent years (see below).

Jersey-based retailers who also operate in Guernsey said that they charged the same price for imported products except for the difference in GST – there is no GST in Guernsey, therefore most grocery products are 5% more expensive in Jersey. One retailer also referred to potential differences in the costs and prices of local produce on the two islands, but this is likely to have little overall impact on consumers given that most grocery products are imported. For imported goods, the same freight costs that increase Jersey prices relative to the UK will also affect Guernsey grocery retailers, as retailers generally use the same freight route.⁵⁵

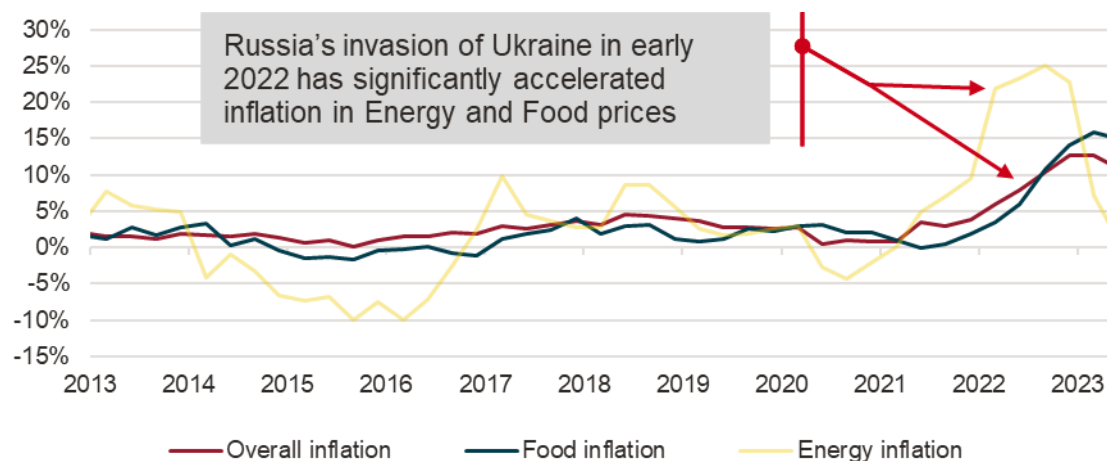
6.4 Inflation in Jersey

Prices in Jersey have been rising at the fastest rate for 30 years, RPI inflation in Jersey was 12.7% in March 2023, the highest rate since the early 1980s. However, overall inflation is now starting to slow, with inflation of 10.9% recorded in the year to June 2023. The rate of price increase in food has followed a similar trend, with inflation in food products peaking at 15.8% in the year to March 2023 and slowing slightly to 15.0% as of June. Food is now the second highest area of inflation,⁵⁶ therefore Jersey consumers are likely to have felt the impact of inflation particularly acutely when shopping for groceries over the last year.

Figure 11 below illustrates how overall inflation, food inflation and energy inflation have evolved over the last 10 years. Jersey has experienced a relatively stable overall inflation rate for most of this period, but inflation has accelerated dramatically over the last two years.

⁵⁵ We note that the majority of retailers (Waitrose, Alliance, Co-op, and Sandpiper) operate on both islands.

⁵⁶ Jersey Retail Prices Index, December 2022. Statistics Jersey, 2023; and Jersey Retail Prices Index, June 2023. Statistics Jersey, 2023. Inflation rates refer to 12-month change in RPI.

Figure 11 Historical rates of overall, food and energy RPI inflation in Jersey

Source: Statistics Jersey

Note: Inflation rates measured as 12-month inflation in RPI.

However, Jersey consumers are not alone in feeling the effect of rising grocery prices. All European countries have seen inflation surge over the last 12-18 months to levels not seen in decades, and food has seen some of the highest levels of inflation.⁵⁷ The core driver of this is higher energy and commodity prices following Russia's invasion of Ukraine, which are key inputs to food production.^{58,59} Consistent with our findings in Section 5.3, and experiences in other grocery markets, small retail operating margins have meant that these cost increases have had to be passed through to consumers. This also means that, as global cost inflation slows down, grocery price inflation has also begun to slow down in Jersey.

Inflation in Jersey compared to Guernsey and the UK

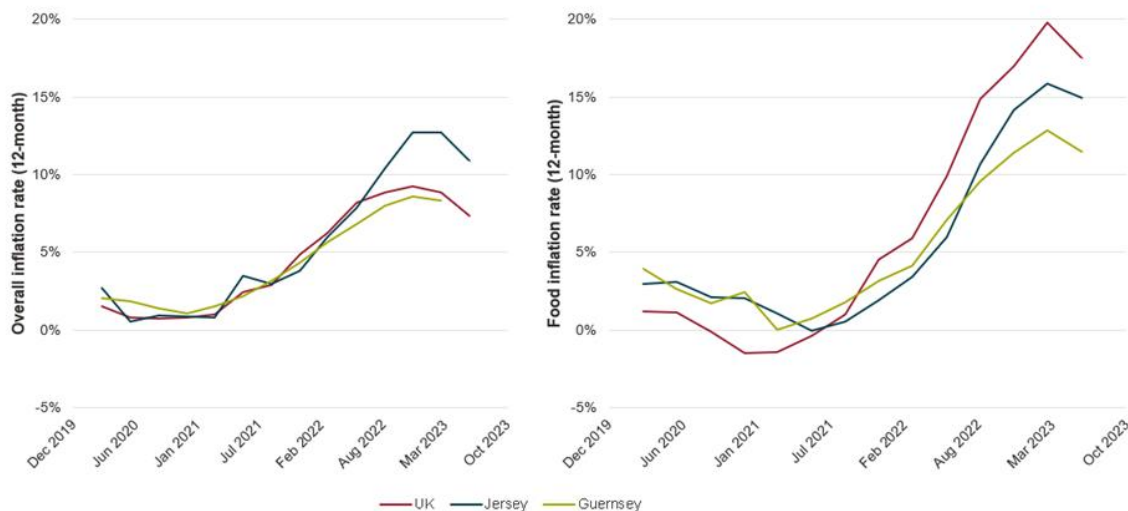
Due to differences in how inflation is measured, the Jersey, Guernsey and UK inflation rates are not directly comparable.⁶⁰ However, consistent with the primary causes of inflation being Europe-wide increases in the prices of energy and commodities, inflation in Jersey has followed a similar pattern to the UK and Guernsey in the past two years – see Figure 12 below. In particular, food inflation has been lower in Jersey than in the UK.

⁵⁷ See for example: Europe Harmonised Index of Consumer Pricing. Eurostat, 2023; and Monetary Policy Committee Monetary Policy Report May 2023. Bank of England, 2023.

⁵⁸ Russia previously provided around 40% of the gas used in the European Union. See: Monetary Policy Committee - Monetary Policy Report May 2022. Bank of England, 2022

⁵⁹ See for example: <https://lordslibrary.parliament.uk/rising-cost-of-agricultural-fertiliser-and-feed-causes-impacts-and-government-policy/>; and <https://www.bailiwickexpress.com/jsy/news/dissecting-shopping-basket/#.ZDgZeXbMIuV> [Last accessed: 13/04/2023]

⁶⁰ Costs associated with owning and occupying one's own home are reflected through a rental equivalence method in the UK CPIH, hence it's rate of increase is less directly affected by changes in the Bank of England Bank Rate, than the Jersey RPI. See: Jersey Retail Prices Index December 2022, Statistics Jersey.

Figure 12 Overall and food inflation in Jersey compared to Guernsey and the UK

Source: Statistics Jersey; Government of Guernsey; ONS

Note: Jersey RPI inflation; UK CPIH inflation (rebased to 2000); Guernsey RPI inflation (rebased to 2000).

6.5 Summary and implications

There is no clear price leader in Jersey offering consistently lower prices across the basket, and the same shopping basket costs a similar amount across most Jersey fascia. This means Jersey consumers can benefit from shopping around, and is consistent with our earlier finding that consumers are willing and able to access a variety of different grocery fascia.

Grocery prices are higher in Jersey than in the UK. The cost of a shopping basket at the same retailer is c.12% lower in the UK than in Jersey, and this is caused by higher retailer costs of operating in Jersey and tax differences; meanwhile the cheapest grocery retailers in the UK – the Discounters – are c.33% cheaper than retailers in Jersey. This means price differences with the UK could disproportionately affect some low-income consumers. However, if a Discounter were to enter Jersey, its prices would still be higher than those in the UK.

While Jersey has recently experienced significant food inflation, this is a global phenomenon, not specific to Jersey. There is no sign that Jersey grocery inflation is out-of-line with inflation in the UK and Guernsey. As inflation has started to slow in Guernsey and the UK, it has also started to slow in Jersey. Increasing grocery prices are the result of increasing supply chain input costs (principally higher energy and commodity prices), not higher retailer margins.

7 Recent grocery developments

In previous sections we noted that the Jersey grocery market has developed considerably since the 2014 Market Study, but also that some features of the UK grocery market are not reflected in Jersey – such as the presence of Discounters and rapid delivery operators. This section explores in more detail the extent to which major developments in grocery propositions observed in the UK have been seen in Jersey. Where relevant it includes a comparison to Guernsey and other island markets, to identify where differences may be due to the characteristics of a small island market as opposed to Jersey-specific factors.

Recent grocery developments include the growth of discount, convenience and online channels; the emergence of rapid delivery; and new product innovation. The following section explores each in turn.

7.1 Discounters

Growth of Discounters in the UK

One of the biggest changes in UK groceries over the last decade has been the growth of the Discounters (Aldi and Lidl) and similar low-cost retailers such as Home Bargains and B&M Bargains. All four have gained market share by increasing their store footprint, and adapting their proposition to attract more customers.

The biggest change has been for Aldi and Lidl, who have increased their combined UK market share from around 6% in 2010 to over 17% today, with Aldi overtaking Morrisons to become the fourth largest grocery retailer in late 2022,⁶¹ based on their core strength in own-label and fresh food categories (with a more limited ‘branded’ offer). By comparison, B&M and Home Bargains have a limited fresh food offer, but focus more on the heavily branded packaged food and non-food categories where they have grown successfully: B&M has nearly doubled its number of UK stores to over 700, while Home Bargains now operates over 500.

The Discounter model is focussed on an efficient, low-cost operation that translates into low prices, whilst maintaining good product quality. They tend to target a specific store format to make this operation work – larger than convenience stores but smaller than typical supermarkets of the Big Four with good space for parking. For example, Aldi’s public information on target sites for new openings specifies their need for a “*minimum circa 2 acre site to accommodate 18-20k sqft [1,672-1,858m²] unit and 100+ dedicated parking spaces*”⁶² - equivalent in size to the Co-op in St Peter, or the Waitrose in St Saviour. All four low-cost

⁶¹ Kantar Grocery Market Share (12 weeks ending) for Great Britain. See: <https://www.kantarworldpanel.com/global/grocery-market-share/great-britain> [Last accessed: 11/04/2023]

⁶² See <https://www.aldi.co.uk/about-aldi/property/required-towns>

retailers have targets to continue opening new stores over the coming years, however they do not publicly identify Channel Islands in their list of target locations.

Grocery retailers in the UK have had to respond to the fast growth of the Discounters, with a particular focus on adapting their proposition in an attempt to stop customers switching away. These proposition responses have varied. Generally there has been a sharper focus on their 'entry level' (i.e. lowest price) product tier, such as the relaunched 'Exclusively at Tesco' and Asda 'Just Essentials' ranges. Promotional and price-matching campaigns, such as 'Aldi Price Match' at Tesco and Sainsbury's, and 'Home Bargains Price Match' at Asda have also grown. There has even been experimentation with new low-cost formats, such as launch of Jack's by Tesco (subsequently closed). All of this means that even if consumers do not switch to a Discounter, they are still able to benefit as a result of the additional competition they have injected in to the market.

Discounter presence in Jersey and other small island markets

Despite the major store expansion programmes in the UK, none of the four low-cost retailers are present in Jersey, Guernsey or the Isle of Man. This suggests that it is the characteristics of a small island market as opposed to Jersey-specific features that have meant that the Discounters have not entered Jersey.

We note that all four low-cost retailers do have a presence in the Isle of Wight. However, there are several structural features that make the Isle of Wight a more attractive market: it has a 40% larger population than Jersey;⁶³ it has a land area over three times that of Jersey, which may mean that it is easier to find suitable sites; it is part of the UK (i.e. not a crown dependency) meaning regulations are fully-aligned with the UK; and the ferry link to mainland UK is shorter and more frequent, which makes fresh food distribution easier (and cheaper) to operate.

Aldi and Lidl were approached for input to this market study but did not respond to our request. However, other retailers we spoke to commented that the lack of suitable sites and planning restrictions for new grocery stores would be a barrier to entry for Discounters considering entry.

"No location [in Jersey] suits Aldi or Lidl because, with them, everything is in a standard format." (Jersey retailer)

"A big barrier [for a Discounter to enter the Jersey market] is property." (Jersey retailer)

A specific example raised was that of The Range, which had an application for a new store rejected in 2022.⁶⁴ While The Range is not a competitor in the grocery market, this barrier it faced entering the market could clearly also be faced by grocery retailers considering entry.

Even if a Discounter were to enter in Jersey, several operators we spoke to (both on and off island) commented that they would not expect them to operate at the same low prices as in

⁶³ Isle of Wight has a population of 140,400 according to the 2021 census.

⁶⁴ The Range homeware store appeal fails to overturn Motor Mall refusal. Jersey Evening Post, 2022.

UK, given the higher costs to operate in Jersey plus the additional sales tax that would be applied. This is consistent with our findings in Section 5.

7.2 Convenience

Growth of the convenience channel in the UK grocery market

Convenience stores, including those at petrol stations, have become an increasingly important channel for grocery retail in the UK, providing consumers with a more accessible option for purchasing everyday items. Convenience growth has outstripped that of the wider grocery market in recent years, as new stores open and consumers' shopping habits adapt.⁶⁵ These stores operate with a more limited range than larger stores, given restrictions on space; and at higher price points, reflecting the higher costs to operate smaller stores.⁶⁶

The main operators of convenience stores include Tesco (Express), Sainsbury's (Local), UK Co-ops, (Little) Waitrose and M&S (Simply Food) – plus a wider set of symbol stores and independent retailers. More recently, Asda and Morrisons have started to move in to convenience, both at new locations and by adding grocery stores at petrol forecourts.

The convenience channel in the Jersey grocery market

The convenience channel has followed a similar trajectory to that of the UK. It has become a key channel for grocery retail, with the opening of new stores. The market is served by multiple convenience stores, including Co-op, M&S, Morrisons Daily, Iceland, Checkers Express, Alliance, and several independents.

The Consumer Survey did not indicate any concerns from consumers regarding access to convenience stores. Retailers we spoke to indicated that there are many convenience stores on the island, and that there is competition among retailers to secure new suitable store sites. Retailers' plans to open additional convenience stores in Jersey suggest that there are no significant barriers to entry or expansion in the convenience channel.

⁶⁵ See: <https://www.ibisworld.com/united-kingdom/market-size/convenience-stores/> and Convenience stores growing faster than overall grocery market in the UK. Talking Retail, 2022.

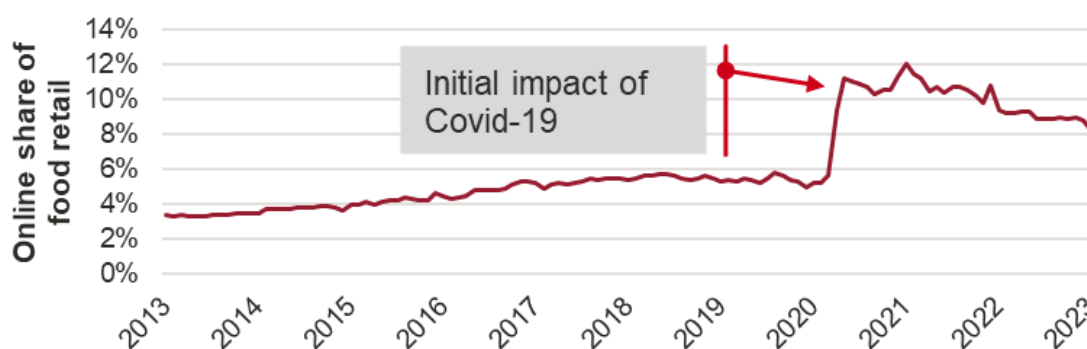
⁶⁶ See: <https://press.which.co.uk/whichpressreleases/the-cost-of-convenience-thatll-be-800-please-which-reveals-the-extra-cost-of-shopping-local/> [Last accessed:03/04/2023]

7.3 Online

Growth of online shopping in UK grocery market

Online grocery grew steadily in the UK over the 2010s, before Covid-19 drove a surge in demand.⁶⁷ Online grocery sales have since fallen back from their peaks but remain well above pre-pandemic levels, as shown in Figure 13.

Figure 13 Growth in online share of UK food retail over the last decade



Source: ONS Retail Sales Index

Note: Internet sales refers to value of seasonally-adjusted internet sales.

The largest online grocery retailers in the UK are Tesco, Sainsbury's, Asda and Ocado; Morrisons and Waitrose have relatively smaller shares, and Amazon Fresh remains a fringe player in online groceries.

Growth of online shopping in the Jersey grocery market

We noted in Section 4 that Jersey consumers have a narrower set of online grocery options, and that online groceries account for a small share of Jersey sales (under 5%).⁶⁸ The Consumer Survey also found the online channel is often used for specific categories.⁶⁹

The limited online grocery offer in comparison to the UK is not surprising given Jersey's size, and is consistent with limited number of online options on Guernsey and the Isle of Man.⁷⁰

⁶⁷ Online grocery encompasses several propositions. The core proposition is home delivery by van (above a minimum order size of c.£40); plus 'click and collect', where consumers collect their ready-bagged orders from stores. The majority of online orders are picked and packed from retailers' existing store networks. Beyond the grocers, other delivered options include meal kit/food box providers (e.g. HelloFresh), and rapid delivery operators (see below).

⁶⁸ Derived by scaling up retailer online sales data by the relative shares of online market implied by the Consumer Survey.

⁶⁹ 34% used it for household goods and 19% for dried/pantry goods, compared to only 4% for fresh products.

⁷⁰ Guernsey is served by Co-op, Food.gg and a handful of independent online grocery services such as Daily Need Delivery. Isle of Man is served by Tesco, Spar and Co-op as well as local independents. Isle of Wight has several online delivery services, reflecting the presence of supermarkets operated by the UK grocers with established online services.

However, it has developed considerably in Jersey over the last 10 years.⁷¹ During this time, online grocery has followed a similar trend as shown in Figure 13. Consumers can now benefit from next-day and even same-day delivery, and may avoid paying additional delivery fees on larger orders at some retailers. We note that in the last year, two online retailers have exited the Jersey market.

The role of off-island online retailers in the Jersey grocery market

Off-island online retailers face limited barriers to entry into the Jersey market, in particular for ‘ambient’ grocery products. As meal kit/food box providers have emerged in the UK, and the likes of Amazon have continued to expand their offering, Jersey consumers have often benefited similarly to UK consumers.

We have heard that off-island retailers, notably Amazon and HelloFresh, have grown their sales significantly in Jersey. Jersey retailers suggested that Amazon tended to compete with them on ambient and non-food products in particular, as shown by the Consumer Survey, and reflecting the lack of ‘Amazon Fresh’ in the Channel Islands. This may be because off-island retailers benefit from a different application of GST (see Section 4.2). However, one retailer suggested off-island retailers’ lower prices were due more to scale and lower operating costs.

Barriers to entry and expansion for Jersey-based online retailers

Recent experience has shown there is scope for new and innovative online business models to launch and grow in Jersey. However, retailers have told us that a Jersey-based online grocery business is hard to sustain due to the high costs involved – particularly labour. They also suggested that the number of convenience stores in Jersey naturally constrains online grocery services, as consumers have a wide variety of options nearby.⁷² One retailer suggested that the Jersey market could only viably sustain two online grocery services, and another suggested they did not have plans to grow their online business further, given the challenges they faced when demand spiked during the height of the Covid-19 pandemic, these questions over the viability of online grocery offerings in Jersey are consistent with two online retailers exiting the Jersey market in the last year. We understand this was likely due to insufficient demand and difficulties with sustaining wholesale arrangements for these retailers.

Low demand, high costs of online grocery services in general, and tax advantages for off-island online retailers all likely pose a barrier to entry or expansion of on-island online grocery retailers. But it is not clear whether this has a significant impact in Jersey consumers’ experience. Satisfaction with existing online grocery services appears high compared to in-

⁷¹ The 2014 Market Study found no online offer in Jersey, whereas now it is clearly established with a variety of operators.

⁷² We note this may also reflect the small overall market size in Jersey and the island’s small geographic area.

person shopping,⁷³ implying that those who do shop online are relatively happy with the level of service they receive.

Finally, while it appears that on-island online retailers may face challenges, it is worth noting that this is not inconsistent with the UK market, where grocery retailers offering online services have often struggled to achieve profits given high operating costs.⁷⁴

7.4 Rapid grocery delivery

An extension to online grocery that has emerged in recent years is rapid grocery delivery, which refers to the service of delivering groceries to consumers within a very short timeframe, often within an hour or less. In the UK, this service has grown significantly in recent years, particularly during the Covid-19 pandemic, (for example, spending via rapid delivery platforms more than doubled in the last five months of 2021).⁷⁵ In general, the business model requires a high volume of short trips to be profitable and so is usually only available in larger UK cities.

Operators include standalone rapid grocery delivery players like Getir; and more general rapid delivery platforms like Deliveroo and Uber Eats who offer grocery delivery alongside hot takeaway food delivery. They have various business models, but typically the operator has an agreement with an existing grocery retailer to either collect products directly from store, or buy wholesale to stock “dark stores” (collection sites not directly accessible to consumers). Some online grocery retailers have directly entered the rapid grocery delivery segment by offering same-day delivery for a premium (e.g. Tesco Whoosh).

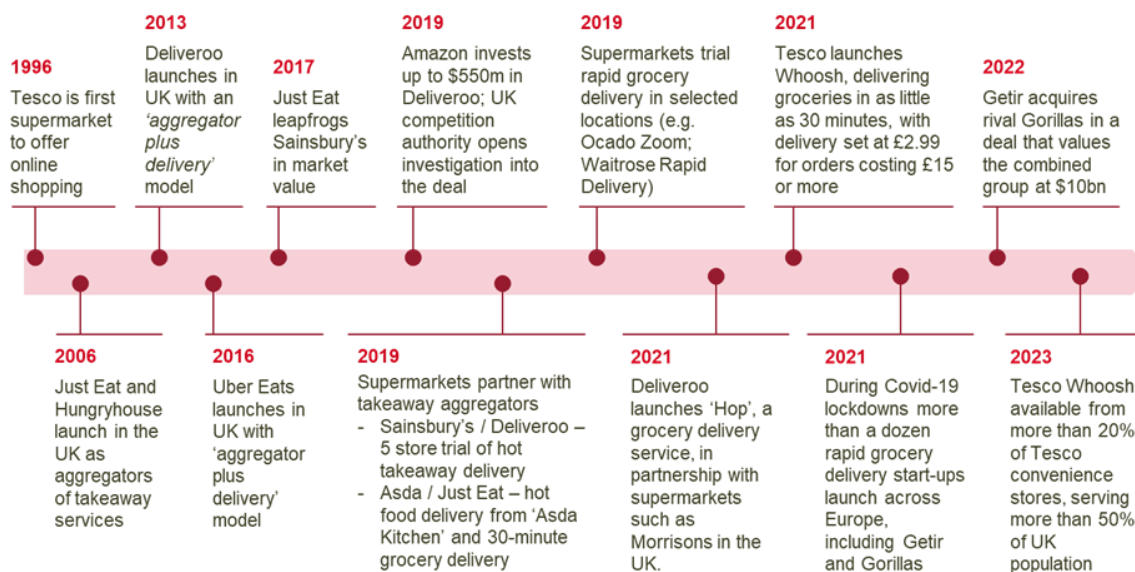
More recently the rapid delivery market has seen exit and consolidation, as demand has fallen back from the peaks of Covid-19, and sources of external funding (used to fund businesses in growth phase where the unit economics do not stack up) have dried up as global interest rates increase.

⁷³ Consumer Survey showed that 85% of consumers were neutral or satisfied with their online grocery shopping experience, compared to only 61% for in-person shopping.

⁷⁴ See for example <https://www.reuters.com/markets/europe/ocados-annual-loss-swells-501-mln-stg-2023-02-28/>

⁷⁵ The rise of rapid delivery apps eats into grocery market share. Internet Retailing, 2022.

Figure 14 Key developments in the UK rapid grocery delivery



Source : Frontier Economics illustration based on public information

Rapid grocery delivery in Jersey and other small island markets today

There are no major rapid grocery delivery operators in Jersey – the closest proposition in Jersey is Order-It, which offers same-day delivery on orders made before 8pm. Nor are there rapid grocery delivery operators in Guernsey or the Isle of Man. However, Deliveroo and Uber Eats both offer rapid grocery delivery (alongside takeaway food delivery) on the Isle of Wight.

Barriers to rapid grocery delivery in Jersey

We spoke to a leading rapid grocery delivery operator in the UK, who indicated that they had not considered entering Jersey. They said this was largely because the UK division typically uses ONS data to identify and compare promising areas to expand into,⁷⁶ which does not feature Channel Islands markets; while their international division would typically focus on much larger jurisdictions. We also heard they would be prompted to consider entry if a large grocery retailer asked them to, in order to deliver their products.

They indicated that the population and density of Jersey, alongside its relatively high proportion of high earners would make it a potentially promising area to expand into. Plus, since Jersey is a small, standalone market, it could be appealing as a testbed for new innovations; for example, new features under consideration for wider roll-out in the UK could be easily tested in Jersey. But a key factor that would stop them from entering Jersey was any regulatory divergence (or even regulatory uncertainty) from the UK – the business case is unlikely to stand up to having to reword any of the contracts they have with suppliers or their self-employed delivery riders.

⁷⁶ The Office for National Statistics is the executive office of the UK Statistics Authority.

In principle, existing online grocery home delivery operators in Jersey could extend in to rapid grocery delivery, if they believe that customers are willing to pay a premium that would cover the costs of delivery, and if they could overcome the operational barriers required to operate including the relevant tech platform and access to delivery drivers.

7.5 Product innovation

Recent years have seen several major themes in new product development driven by a mix of changing consumer demand, technical innovation, and policy action. These include innovation in plant-based food, reformulation to reduce salt & sugar content, and packaging changes to reduce use of plastic. Many of these changes are driven by a desire to reduce the environmental impact of food supply or to improve health outcomes for consumers.⁷⁷

In almost all cases the extent to which Jersey consumers benefit from these developments will be shaped by the supply arrangements for those products. Given the vast majority of food in Jersey is sourced from the UK, the majority of changes will automatically filter through – as UK (or international) suppliers launch new products, reformulate their existing products, or redesign the packaging. Looking ahead, the policy focus of UK government on these issues can be expected to continue to shape outcomes for Jersey consumers through this link.

The topic of product innovation attracted relatively little attention through the Consumer Survey and retailer interviews in the market study. For example, while several respondents to the Consumer Survey suggested they would prefer to have more sustainable products, these responses tended to focus on availability of local produce and increased use of refill stations rather than differences in product offerings compared to mainstream UK retailers.

7.6 Summary and implications

The grocery market in Jersey has undergone significant change in recent years, reflecting many of the broader trends seen in larger markets. Growth in the online and convenience channels has changed the retail landscape, increasing consumer choice while presenting both opportunities and challenges for grocery operators. New product development is largely led from the UK (as the primary source of supply) and therefore shaped by the actions and priorities of UK suppliers and policymakers – with the benefits extending to Jersey consumers.

In contrast, the significant growth of Discounters seen in the UK has not been observed in Jersey, the growth of online has been slower, and rapid delivery operators have not entered the market. However these features are common with Guernsey and the Isle of Man, which indicates their primary driver is the barriers to entry caused by a small market and operational complexity of supply to a small island, rather than Jersey-specific factors.

⁷⁷ In this context the approach of government can shape the pace of change, for example through the UK introduction of the 'soft drinks industry levy' in 2018, and restrictions on the promotions of HFSS (high fat, sugar or salt) products introduced in 2022 – both of which have encouraged suppliers to reformulate their products in affected categories.

8 Recommendations

Recap on key findings

Based on our analysis we conclude that competition in the Jersey grocery market is working. Grocery retailers are not making excessive profits and consumers shop around. Jersey has a variety of grocery retailers with diverse propositions and since the last Grocery Market Study in 2014, Jersey's grocery market has developed with new entrants and the emergence of online groceries. The result is that consumers are generally well served, with the majority feeling neutral or satisfied with their grocery shopping experience.

Recent high inflation is the result of increasing supply chain input costs which have been seen globally (principally higher energy and commodity prices), and does not result from a lack of competition among Jersey grocery retailers. There is no sign that Jersey grocery inflation is out-of-line with inflation in the UK and Guernsey. As global cost inflation slows down, grocery price inflation would also be expected to continue to slow down in Jersey.

We have found that grocery prices are higher in Jersey than in the UK – specifically, the cost of a shopping basket at the same retailer is c.12% lower in the UK than in Jersey – but this reflects higher costs (primarily freight and labour) and tax differences.⁷⁸ Since competition is working, and retailers are not making excess profits, reductions in costs would be reflected in lower prices for consumers.

In comparison to the UK, Jersey lacks the lower price grocery retailers – notably the 'Big Four' and the Discounters. A significant minority of consumers report being unsatisfied with their grocery shopping experience, particularly the most budget-conscious consumers. Our analysis showed that the cheapest grocery retailers in the UK can be up to c.33% cheaper than grocery retailers in Jersey (although Jersey consumers can reduce that gap by shopping around to find the cheapest products). In addition, we note that if a lower price retailer were to enter Jersey, its prices would be higher than those in the UK, due to the same additional costs of operating in Jersey that affect existing grocery retailers in the market.

There are clear calls from some consumers for a 'budget' competitor. We have found that the lack of lower price retailers is due to the inherent barriers to entering a small, island market, rather than Jersey-specific issues. These barriers include Jersey's small market size; the market is already well served (e.g. most store sites are already occupied); and the logistical challenges of supplying an island market – plus specific restrictions linked to the planning regime in Jersey.

⁷⁸ All groceries are subject to 5% GST in Jersey. Most groceries are exempt from 20% VAT in the UK, but not all. So for most products, 5% more tax is paid in Jersey, but for some 15% less tax is paid. On average, c.2% more tax is paid in Jersey.

Takeaways for policymakers



Although the Jersey grocery market is functioning well from a competition perspective, prices are higher than in the UK. This is due to higher operating costs, the sales tax on food, and the absence of lower price retailers (Big Four and Discounters) given inherent limited attractiveness of a small island market that is already well served.



These higher grocery prices could have a disproportionate effect on some lower-income consumers. So continuing to find ways to support these consumers should remain a priority, and shapes our recommendations.

Recommendations

Recommendation 1: increase funding to improve Jersey Consumer Council's price comparison service

Even though the Jersey grocery market is working, we have found that low-income consumers may be relatively less well served. Our analysis in Section 6 underlined this, but also indicated how outcomes might be improved. The analysis found that an equivalent basket of goods would cost between 12% and 33% less in the UK than in Jersey. But it also implied there are potentially large benefits from making it easier to find the cheapest products – for example, by using JCC's price comparison service. Recent work by the CMA in the UK has also highlighted the general importance of price transparency for consumers.⁷⁹

Consumers can already use JCC's price comparison service to compare prices across several Jersey fascia and identify the cheapest prices. But interviews with retailers, and our own experience of handling the underlying data, tell us that the scale, reliability and functionality of the tool is currently limited. Furthermore, only 50% of Jersey consumers have heard of the JCC app, with about 28% reporting to use it.⁸⁰

Therefore, funding should increase to improve JCC's price comparison service, to improve awareness of the tool, the accuracy of the data collected and the tool functionality. This will make it easier for consumers to compare prices across retailers and identify the best-value groceries, and would encourage price-based competition for the cheapest groceries.

- **Reliability** could be improved by digitising data collection, or encouraging retailers to provide price data directly.
- **Scale** could be improved by including more products on the site, and gathering data at more fascia/stores.

⁷⁹ The CMA's Groceries Unit Pricing Review of Compliance (July 2023) recommended that UK unit pricing legislation should be reformed and improved, to be more consistent and legible. The CMA's Supply of Road Fuel in the United Kingdom Market Study (July 2023) also included recommendations to increase fuel price transparency across retailers.

⁸⁰ Jersey Retail 2023 Report. 4insight, 2023.

- **Functionality** could be improved for price-focused consumers, e.g. via a basket of goods comparison or indicators for promotions.
- **Awareness** and usage can be grown with additional marketing.

Recommendation 2: minimise any additional entry barriers like planning and labelling requirements, improve comparability of Jersey with other relevant grocery markets, and promote Jersey as a testbed for innovation

When outlining the Jersey grocery market, and comparing how it has developed compared to the UK market in recent times, we found it has benefitted from market entry and the emergence of online groceries since the 2014 Market Study – see Sections 4 and 7. And there is a clear desire among consumers to continue to benefit from a dynamic market – e.g. through entry of new grocery operators. Going forwards, it is important that consumers continue to get maximum benefit from new and improved grocery propositions, as they develop.

Interviews with on- and off-island grocery operators (also explored in Section 7) suggest that prospective new entrants to the Jersey grocery market face barriers to entry that are inherent to small, island markets. But we have also seen evidence that there may be additional barriers caused by Jersey regulations, for example, The Range was refused planning permission to open a store in Jersey.

We also heard that operators not active in the Jersey grocery market may not have considered the Jersey market in the past, or were impeded in doing so, by data on the Jersey market not appearing in, or uncertainty whether it is comparable to, data on similar-sized markets within the UK. This finding may be also be applicable to firms active in markets other than grocery retail.

Another suggestion in interviews was that the island may appeal as a testbed for innovation: Jersey may be a sensible market in which to trial changes to grocery propositions and gauge consumers' responses; the market is small, meaning rolling-out potential innovations would not be costly; and the market has distinct boundaries (unlike e.g. UK local markets, which tend to blend into one another), meaning there is less risk of confusion over which consumers are experiencing the proposition change. Promoting Jersey as a testbed for innovation may therefore benefit consumers by spurring more operators to enter the market, as well as increasing Jersey consumers' exposure to innovative grocery propositions.⁸¹

Finally, we note that a French entrant to the retail grocery market in Jersey would face similar barriers to entry as a UK entrant. However, as discussed in Section 5, given French retailers face additional costs (notably relabelling costs), a French grocery operator may face additional barriers to entry.

⁸¹ We note that Jersey has a history of being promoted and used as a testing ground for innovation, for example, through the Sandbox Jersey initiative, run by government-backed Digital Jersey. See: <https://www.digital.je/choose-jersey/sandbox-jersey/> [Last accessed: 23/05/2023]

Therefore, the extent to which Jersey regulations cause additional barriers to entry for non-Jersey grocery operators should be minimised, and it should be considered how best to engage with future prospective entrants. This would ensure the grocery market continues to be competitive and dynamic. Appropriate measures may include:

- taking reasonable measures to minimise the extent to which **planning** acts as a barrier to entry;
- improving **ease of comparison of the Jersey grocery market** with UK / other markets for prospective entrants, e.g. by providing data consistent with UK data sources (e.g. ONS), or engaging with third-party data providers who cover retail markets (e.g. Geolytix, Experian);
- **engaging proactively with prospective new entrants**, especially when key opportunities for entry arise, such as when new sites become available;
- **promoting Jersey as a testbed for innovation** for grocery operators; and
- minimising any barriers to French products (whether offered by a French retailer or through a wholesaler), for example by reviewing **labelling requirements** to reduce costs.

Recommendation 3: continue to consider the Authority’s recommendations in its 2021 Freight Logistics Market Study

As we explored in Section 5.2, based on interviews and data provided by retailers, incremental freight costs in Jersey are a significant factor in higher grocery prices compared to the UK. Any off-island retailers entering the Jersey grocery market would also face these higher costs and would need to raise their prices accordingly.

The recommendations set out in the Authority’s 2021 Freight Logistics Market Study should continue to be considered. These aim to promote more competition and help improve the price, quality and range of freight logistics services available to Jersey businesses.⁸² **If policy can reduce the level of freight costs, it is likely to translate into lower grocery prices for consumers**, since the market is competitive and we have found (in Sections 5 and 6) that prices largely reflect cost.

⁸² See: <https://www.icra.ie/media/598599/recommendations-infographic.pdf> [Last accessed: 03/05/2023]

Annex A – Terms of reference

2nd Floor Salisbury House, 1-9 Union Street, St Helier, Jersey
01534 514990 | www.jcra.je

Groceries market study: terms of reference



The Jersey Competition Regulatory Authority (the Authority) will be carrying out a market study into the supply of groceries in Jersey. The study will be carried out against the published terms of reference set out below, which have been set by reference to a consideration of international approaches, previous studies conducted by the Authority and an initial review of the market.

The Authority will conduct a market study into the supply of groceries in Jersey. The study will consider market characteristics, the nature of competition and the findings of previous market studies. The study will also consider wider developments, both local and international, to understand whether there are features of the market which potentially impact competition.

In particular, the study will consider:

- market characteristics, including consumer demand, market structure and market outcomes;
- the nature of competition across the grocery market supply chain;
- features or otherwise of the grocery market which potentially impact competition;
- comparative data and findings from previous market studies carried out by the Authority and wider international developments; and
- subject to the above, recommendations for prioritising areas likely to have a significant impact on competition in the retail grocery market.

For the purposes of this study grocery retailers are defined as retailers who sell directly to consumers and may acquire products either from a wholesaler or directly from a supplier.

Formal work on the study will start in January 2023 and will be complete by the end of 2023. A draft report will be published for consultation in June/July 2023. Further details about the study are available in the Frequently Asked Questions document issued alongside these terms of reference.

Annex B – Detailed methodology for our basket of goods analysis

Introduction

In this Annex, we set out our methodology for the “basket of goods” analysis, which we have used in Section 6 to make a high-level comparison of the level of grocery prices in Jersey compared to the UK.

As explained in Section 6, basket of goods analyses are an accepted, effective, and intuitive way of gauging the similarity of prices across different time periods, different stores, or different jurisdictions.

Basket of goods analyses first require a representative basket of goods to be specified. Second, they require relevant pricing data. Third, the price of a given basket (i.e. at a given fascia, in a given jurisdiction, at a given time) must be calculated. Fourth, the prices of different baskets are compared.

Our representative basket of goods

The table below lists the goods included in our representative basket of goods. Our basket is representative, as it includes various products from different grocery categories that consumers would shop for, as well as comprising of a mix of branded and own-label products. We have largely based our basket of goods on that used in the 2014 Market Study.⁸³

Table 5 Our representative basket of goods

Product name	Product category ⁸⁴	Weight / format	Brand
Bread - White sliced loaf (cheapest)	Fresh	800g	Own-label
Baked Beans (cheapest)	Packaged	400-420g	Own-label
Rice - White (cheapest)	Packaged	1kg	Own-label
Pasta - Penne (cheapest)	Packaged	500g	Own-label
Sugar (cheapest)	Packaged	1kg	Own-label
Tea (cheapest)	Packaged	80 bags	Own-label

⁸³ See Appendix B of the 2014 Market Study

⁸⁴ Our weighting method meant we had to assign all frozen products to either the “Fresh” or “Packaged” category. We assigned frozen goods in our basket to “Fresh”, noting this is somewhat arbitrary (e.g. it may be less appropriate for Oven Chips than for Petit Pois). Assigning these goods to “Packaged” instead does not change our results.

Coffee - Instant Ground - Gold equivalent (cheapest)	Packaged	200g	Own-label
Cereal - Cornflakes (cheapest)	Packaged	450-500g	Own-label
Oil - Olive Extra Virgin (cheapest)	Packaged	500ml	Own-label
Tomatoes - Chopped (cheapest)	Packaged	400g	Own-label
Tomato Ketchup Original - Heinz	Packaged	460-500ml	Heinz
Baked Beans - Heinz	Packaged	415g	Heinz
Cereal - Alpen	Packaged	550g	Alpen
Cheese - Cheddar (cheapest)	Fresh	350-400g	Own-label
Eggs (cheapest)	Fresh	6 pack	Own-label
Milk	Fresh	1 litre	Own-label
Margarine - Flora Original Spread	Fresh	450-500g	Flora
Coca Cola - Original/Classic	Packaged	1.5Ltr	Coca Cola
Oven Chips (cheapest)	Fresh	1-1.5kg	Own-label
Peas - Petit pois (cheapest)	Fresh	1kg	Own-label
Pineapple - Whole (cheapest)	Fresh	1 Whole pineapple	Own-label
Potatoes - White (cheapest)	Fresh	2-2.5kg	Own-label
Carrots (cheapest)	Fresh	1kg	Own-label
Peppers - Mixed bag of 3 (cheapest)	Fresh	3 pack	Own-label
Surface Wipes - Antibacterial - Large pack (cheapest)	Non-food	70-130pack	Own-label
Washing Up Liquid (cheapest)	Non-food	600-650ml	Own-label
Kitchen Roll (cheapest)	Non-food	2 pack	Own-label
Toilet Rolls (cheapest)	Non-food	4 pack	Own-label
Cream Cleaner - CIF	Non-food	500ml	CIF
Dog Food - Pedigree Selection in Gravy	Non-food	6 tins, 400g	Pedigree
Chicken - Fresh whole (cheapest)	Fresh	1.4 to 1.9kg	Own-label
Sausages (cheapest)	Fresh	8 pack	Own-label
Biscuits - Chocolate digestives (cheapest)	Packaged	300-350g	Own-label
Crisps - Ready salted (cheapest)	Packaged	6 multipack	Own-label

Source: *Frontier Economics*

B.1 Pricing data used

Jersey grocery prices

As explained in Section 3, we have leveraged data from the pricecomparison.je website (also available as an app), which is maintained by the JCC. The data is collected by JCC so that consumers can compare prices across most of Jersey's main grocery fascia. This data included, for the period from May 2020 to February 2023 (when we received the data):

- price of a given product, for 100+ products;
- the fascia/store at which the price was recorded, i.e:
 - Alliance – Sand Street,
 - Co-op Grand Marche St Helier,
 - Iceland – St Helier,
 - M&S – King Street,
 - Morrisons – Millbrook,
 - Waitrose – Rue des Pres, or
 - Valley Foods – Online; and
- the date on which the price was recorded – usually every two weeks.

The data itself is collected by JCC volunteers. We understand that this is done on paper, with volunteers checking the JCC's list of products for comparison – all volunteers work off the same criteria for each product, including weight range and other specifics. Where a product is not available at a given store in a given week, the price is labelled as "N/A". Once the prices have been recorded in-store, they are entered into excel and uploaded to the website/app.

For our analysis, we used the prices recorded on the latest available dates at the time of our data request to JCC: 15th/16th February 2023. Our analysis of in-person grocery prices in Section 6 excludes Iceland since we found that the JCC data implied Iceland was significantly more expensive than the other Jersey fascia, which contrasted with qualitative evidence on Iceland's price positioning in Jersey.⁸⁵ We also excluded Valley Foods, as we do not consider online grocery prices in that analysis.

⁸⁵ In the scoping and retailer interviews we heard that Iceland was considered one of the cheaper fascia in Jersey, and we also found in the Consumer Survey that more value-focused consumers were particularly likely to shop at Iceland.

UK grocery prices

To calculate the price of a UK basket of goods, we used a mixture of price data from Trolley.co.uk, the UK's fastest growing grocery price comparison app⁸⁶ and retailer websites. The UK retailers whose prices we considered were:

- Aldi (which we treated as representative of the Discounters);
- The Big Four:
 - Sainsbury's,
 - Asda,
 - Morrisons, and
 - Tesco;
- Co-op; and
- Waitrose.

We generally used data from Trolley.co.uk for each of the products in our basket of goods described above. However, we referred to the retailers' websites in the case of Waitrose, Asda, Co-op, and Tesco in some cases. Specifically, we referred to the retailers' websites in two cases:

1. the own-brand products were not included on trolley.co.uk; or
2. a more suitable product (i.e. closer to comparison product in weight and type) was available on the retailer's website.

B.2 Price comparison calculations

Calculating the price of each basket

We calculated the price of each basket by summing up the prices of the products in our basket of goods for each fascia in each jurisdiction, subject to different assumptions. Specifically, we calculated the overall price of each basket both with and without weightings to reflect the relative importance of different product categories; and both including and excluding sales taxes – namely VAT in the UK and GST in Jersey.

Regarding the weighted price calculations, we weighted the price for each product in our basket of goods based on whether they fall in the fresh, packaged, or non-food category. This reflects that consumers would tend to buy Fresh food products more frequently than packaged food products, and would tend to purchase non-food products (e.g. surface wipes) less frequently than food. Our weightings were based on data provided by one of the retailers in Jersey, and are provided below.

⁸⁶ See: <https://www.trolley.co.uk/about/> [Last accessed: 11/04/2023]

Table 6 Weightings for basket of goods analysis

Product category	Weight relative to fresh
Fresh	1.0
Packaged	0.7
Non-food	0.3

Source: Retailer data

Note: Weights calculated by Frontier Economics

However, in some cases, we could not find the price of a particular good at a particular fascia – for example, when the fascia did not stock that product. Where this was the case, we took the average price of that good across other fascia in the same jurisdiction (e.g. if we could not find the price of a product for Aldi, we would assume its price was equal to the average price of that product at other UK retailers). This adjustment was required in 19 cases in Jersey and 10 cases in the UK.

Similarly, we sometimes found that fascia sold the same product, but in different formats/weights. Where this was the case, we applied an uplift to make the prices more comparable. This meant assuming that retailers would set the same price per volume of the affected product, if they provided that product in the size required for our basket of goods – this is an imperfect assumption, but a necessary one for our analysis. In any case, this was only necessary for the UK basket of goods calculations, and only affected about one in every 10 products included in our analysis.

Price comparison across baskets

Once we had calculated the price of each basket of goods, in both weighted and unweighted terms, and inclusive and exclusive of sales taxes, we could compare the results. The comparisons we have made are set out in Section 6. Our comparisons are based on simple ratios between the total price of each basket, given the assumptions made about weights and taxes. Where we have referred to average prices of baskets of goods across fascia, this is based on arithmetic averaging.

Frontier Economics Ltd is a member of the Frontier Economics network, which consists of two separate companies based in Europe (Frontier Economics Ltd) and Australia (Frontier Economics Pty Ltd). Both companies are independently owned, and legal commitments entered into by one company do not impose any obligations on the other company in the network. All views expressed in this document are the views of Frontier Economics Ltd.

