



Review of the grocery market in Jersey and Guernsey

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EXECUTIVE SUMMARY

Grocery shopping is a substantial expense for consumers - in Jersey and Guernsey, food and non-alcoholic drink accounts for about 10% of all household expenditure. For those on the lowest incomes, it constitutes about 15% of household expenditure. The amount of money that is spent at supermarkets in Jersey and Guernsey is significant, with the larger supermarkets having a combined turnover, in 2012, of £214 million in Jersey and £160 million in Guernsey.

UK consumers have the choice of at least ten brands of supermarket, although not all are available in every region. This choice includes supermarkets that are not active in the Channel Islands such as the “big four” - Tesco, Asda, Sainsbury’s and Morrisons - and the “deep discounters”, Aldi and Lidl. Given the relatively small size of the Channel Islands, the choices of supermarket available to grocery customers are more limited: Jersey consumers have the choice of five brands of supermarket operated by three corporate groups, while Guernsey consumers have the choice of seven brands operated by six corporate groups.

Price comparisons between Jersey and Guernsey and the UK

Comparing prices between supermarkets in Jersey and Guernsey and the UK is not straightforward. Many factors, including differences in available ranges, quality and supermarkets, complicate the comparisons. We used two different methods to compare prices. For supermarkets that were part of, or were affiliated with, UK retail groups (i.e. Waitrose, M&S and The Co-operative), we undertook a detailed analysis comparing the prices of the best-selling 500 or 1000 products in Jersey and Guernsey with the prices for the same goods in those stores in the UK. We also did a “real life shop” at one store of each of the main supermarket brands in Jersey, Guernsey and the UK to find the cheapest prices for a basket of basic goods.

Comparing “like with like”, e.g. Waitrose UK with Waitrose in Jersey and Guernsey, as we did in our 500/1000 product price comparison, we conclude that for the product ranges offered in Jersey and Guernsey, consumers appear to be paying more, but not substantially more, than they would in the same brand of supermarket in the UK. Subject to some caveats regarding the availability of data, our assessment is that the price difference is likely to be less than 10%, excluding taxes and duties. Our analysis suggests that consumers in Jersey and Guernsey can therefore feel confident that for the same products bought at the same brand of supermarket, they are not paying much more than they would in the UK.

In the “real life shop”, we sought to shop for a basket of typical basic items, trying to find the cheapest available example for that good at each store visited. A Guernsey consumer shopping for our basket at the cheapest price they could find in any of the supermarkets included in our exercise would have paid £54.10, while a Jersey consumer would have paid £52.70. The cheapest price available to a consumer shopping in the UK – which includes some cheaper supermarkets that are not active in the Channel Islands – was £39.69 for the basket. A Guernsey consumer would therefore have paid £14 (36%) more for our basket and a Jersey consumer £13 (32%) more than a consumer in the UK, who has a wider range of supermarkets to choose from. If taxes and duties – which vary between Jersey, Guernsey and the UK – are stripped away, the cheapest price for the basket in Guernsey would be about 60% more and in Jersey, 50% more than at the cheapest supermarket in the UK.

Much of the price difference appears to arise because of the absence in Jersey and Guernsey of a number of the cheaper UK supermarkets. However, it is important to note that the “real life shop” does not take account of any differences in the quality of groceries and involves judgments about pack sizes.

The main implication of these price comparisons is that while supermarkets with a presence in Jersey and Guernsey and the UK, appear not to charge substantially higher prices overall for the product ranges they offer, those consumers on the tightest budgets in Jersey and Guernsey, or who would choose to shop for lower priced goods if they were available, are disadvantaged through the absence of cheaper supermarkets that are available to the UK consumer.

Costs of grocery retailers

The availability of cost data for UK supermarkets, sufficient to make meaningful comparisons with the stores in Jersey and Guernsey is very limited, particularly as most UK cost data is only available at a group level, and different supermarkets in different regions are likely to have very different cost structures.

To the extent that comparative data has been available, the evidence that we have reviewed from retailers shows that Jersey and Guernsey supermarkets may face higher labour costs than equivalent supermarkets in the UK.

A retailer provided us with evidence that shrinkage (i.e. wastage) rates at its Jersey and Guernsey stores were materially higher than at its UK stores and that the difference represented more than 1% of turnover. Factors which may contribute to higher shrinkage could include restrictions on opening times and the time required for the transport of groceries to Jersey and Guernsey by sea.

The distribution costs (comprising sea freight and on-island distribution) of Jersey and Guernsey supermarkets vary, but average around 7% of turnover, whereas the best estimate of distribution costs for supermarkets in the UK is that they represent around 5% of turnover. Distribution costs in the UK are likely to vary significantly between regions and between individual supermarkets, but supermarkets in the UK typically absorb the higher distribution costs in more remote regions by adopting national pricing policies.

Assuming that there is a less than 10% price difference between the prices of products that are available in Jersey and Guernsey, and the prices of the same products at the same brand of supermarkets in the UK, it is plausible that additional costs account for a proportion of this difference. It may be, however, that the price difference between Jersey and Guernsey, and the UK, is greater when considering differences in the range of products – i.e. cheaper product ranges may not be available in Jersey and Guernsey. And so, if competitive pressures were greater, Jersey and Guernsey supermarkets may be spurred to respond by driving cost savings, lowering prices or stocking a wider range of lower priced goods.

The price of milk

We appreciate that the support of the dairy industries in both Jersey and Guernsey raises important social and cultural issues, not least the strong and historic identity of the islands as producers of premium dairy products.

Importing liquid cow's milk to Jersey and Guernsey is prohibited in law and consumers in Jersey and Guernsey pay more for milk produced on the islands than consumers in the UK pay for standard milk. Jersey Dairy and Guernsey Dairy contend that the quality of milk sold in the Channel Islands is higher than standard milk available in the UK and although, many consumers in Jersey and Guernsey value local milk, choice is restricted and consumers are left with no choice but to buy the premium local product. Consumers in each island pay about £2 million more per year than would be the case if they bought milk at the average UK price, as at the end of 2013. Governments in both islands are currently considering reforms to the way the dairy industry in their respective island is organized and supported.

Online shopping

One significant difference between shopping for groceries in Jersey and Guernsey, and the UK is the availability of online shopping in the UK. Although online grocery shopping in the UK is still small compared to in-store shopping, with just 3.82%¹ of total grocery sales estimated to have been online in 2013, online grocery shopping is forecast to grow significantly in the future.

Supermarkets in Jersey and Guernsey tell us they have no current plans to launch online grocery shopping services because the start-up costs are prohibitive, relative to the size of the islands' populations. There is, however, demand for online grocery shopping from consumers in the islands. In our consumer survey, 53% of respondents in Jersey said they were very likely or likely to use an online service to shop for groceries and another 16% said they would consider doing so. The numbers in Guernsey were only slightly lower, with 40% saying they would be likely or very likely to use an online service, with another 17% saying they would consider doing so.

Jersey respondents to our survey noted that they used local suppliers that offer online grocery shopping services and our consumer survey also evidenced that consumers are purchasing non-perishable grocery goods from online suppliers who ship to Jersey and Guernsey. Consequently, given the apparent demand from consumers, it seems to us that the absence of online shopping offered by the supermarkets may be a consequence of the limited range of supermarkets in Jersey and Guernsey, rather than the start-up costs for such a service. In this context, we note that Tesco in the Isle of Man offers an online shopping service.

Display of prices

Consumers who can shop with confidence and make informed choices between suppliers and products drive competition and underpin efficient markets. A key part of maintaining consumer confidence is ensuring that consumers have clearly understood rights when they buy goods and services.

One important finding from our consumer survey was that around a third of consumers in both islands did not find offers in supermarkets easy to understand. Shopping for groceries is different from many other purchasing decisions that consumers make. Consumers are often buying many items, all at different prices, prices can vary by weight and there are often multi-buy offers or promotional discounting, which have the potential to confuse consumers. We saw ourselves, during our "real life shop", that it was often difficult to identify the

¹ <http://www.igd.com/our-expertise/Retail/retail-outlook/3371/UK-Grocery-Retailing>

cheapest option and compare across products, particularly when some products were on multi-buy promotions. Clear, honest, upfront display of prices is beneficial to consumers and competition. Misleading or unclear display of prices, however, may lead to consumers making the wrong decision and spending more than they need to – to the benefit of retailers.

We believe that new consumer protection legislation in both Jersey and Guernsey could be of benefit to consumers and competition by helping improve the display of supermarket price promotions. It appears that drafting time will be made available in 2014 for the implementation of a version of the Unfair Commercial Practices Directive in Jersey. We also understand that in Guernsey, during 2014, the Commerce & Employment Department will consider the matter of consumer protection, including price display, and whether to introduce legislation or seek other policy action.

In the meantime, in response to consumers' concerns and noting the considerable progress apparently made in the UK by Which?, working on a voluntary basis with grocery retailers, we have discussed with the supermarkets in Jersey and Guernsey whether they would be willing to sign up to a voluntary code to follow best practice in the display of prices and price promotions. All the supermarkets responded positively, although subject to the detail of any code being agreed. CICRA has also canvassed opinion from various stakeholder groups who have a potential interest in the subject matter of a code. The Jersey Consumer Council and the Trading Standards Service in Jersey have each expressed support in principle for a code, although noting that further discussions are required on such matters as the scope of the code and the manner in which compliance by retailers would be sought.

It is proposed that the code would apply, at a minimum, to the stores that were the subject of the study (i.e. supermarkets), but we would encourage those retailers to apply the code in their stores that were not subject to the study i.e. Co-op enroute, Checkers Xpress and Island Shopper. In general, our view is that the code should seek: simple, consistent unit pricing; clear, legible display of prices i.e. omitting unnecessary information and using a clear font; and making special offers and promotions simpler to understand e.g. displaying the unit price on promotions for multi-buys of the same item and ensuring that internal reference pricing and pre-printed value claims on packs are not misleading. We will continue our discussions with retailers and stakeholders, with a view to creating a code of best practice on grocery pricing practices in Jersey and Guernsey.

Barriers to entry and the planning systems

Based on the findings of this study, the entry of a supermarket that typically offers lower prices or a lower priced range of products would be of benefit to consumers in both islands, but particularly in Jersey, which has fewer supermarket brands than Guernsey.

However, new entrants face a range of barriers to entry: recruiting skilled labour, the costs of operating in the separate and small jurisdictions of Jersey and Guernsey compared to the UK and (the most often mentioned barrier) the scarcity of available land of an adequate size and the high cost of acquiring and developing suitable property on either island. Retailers told us that an integral part of this barrier was the challenges and costs associated with the planning systems.

Within the Jersey and Guernsey planning frameworks, the objective to promote beneficial competition is less clear than it is in the UK national planning framework. Of course,

planning systems are, quite rightly, not designed to manipulate the entry of certain brands of retailers or favour certain retailers over others. However, for those consumers on the tightest budgets in Jersey and Guernsey or looking for the cheapest prices, the entry of a discount supermarket would be beneficial. It is acknowledged that planning systems can only affect land use, and have no direct influence over the identity of the occupier of the land, and so approval of new grocery retailing space would not of itself necessarily guarantee that the occupier would be a new entrant or that the grant of approval would improve competition. Nevertheless, there could be benefit in both the Jersey and Guernsey planning systems placing more weight on the advantages from increased grocery retailing choice and competition. This recommendation is particularly pertinent as it relates to Jersey because of the existence in Guernsey of more retail floor space and more supermarket brands for consumers to choose from.

Sunday trading

There are restrictions in place in both Jersey and Guernsey, which regulate the opening hours of some stores on Sundays and there are particular restrictions on larger stores (including many supermarkets) opening on a Sunday. To comment on all of the arguments that arise around Sunday trading is outside the scope of this report, as is reaching a definitive view on the costs and benefits of Sunday trading. Nevertheless, during this study, restrictions on Sunday trading were raised with us by both grocery retailers and consumers. Therefore, we have reported the views that were shared and set out some of the arguments for and against Sunday trading, but we have limited our observations to those matters that may have a direct impact on the customers of grocery retailers.

If Sunday trading rules restricting trading by larger grocery stores were to be relaxed, it seems likely that there would be some consumer benefits in terms of convenience. In addition, there may be some cost savings to large grocery retailers, i.e. less wastage, which may be competed away to the benefit of consumers – although this is not certain and depends on competitive conditions, which may vary over time. Equally, it is possible that some smaller shops like local convenience stores may be negatively impacted and consumers as citizens often regret the closing of smaller stores, even though they value the often cheaper prices and greater convenience of online shopping and larger stores.

Overall, relaxing Sunday trading rules for large grocery stores may bring benefits to consumers. However, Sunday trading is a matter with competing policy considerations, the balancing of which is for the government in each island to resolve and determine.

Thank you

We are very grateful for all of the assistance given to CICRA throughout this study, in particular, the supermarkets for providing data and industry experience, consumers in both islands for sharing their views and completing our survey and various States of Jersey and States of Guernsey Departments, as well as the Jersey Consumer Council, for providing their views and information.

1. BACKGROUND TO THE REVIEW

During a debate in the Jersey States Assembly on 18 May 2011, about a proposition to zero-rate or exempt foodstuffs and domestic fuel from Goods and Services Tax (**GST**), the Minister for Economic Development (the **Minister**) informed the Assembly of his view that the Jersey Competition Regulatory Authority (**JCRA**) should investigate food prices in Jersey and, in particular, the difference between prices for food in Jersey and the United Kingdom (**UK**).

The *Comparison of Consumer Prices* report for June 2012, released by the States of Jersey Statistics Unit on 7 September 2012, highlighted substantial differences between the prices of certain categories of food in Jersey and the UK. In particular, the report stated that fresh fruit was over a third more expensive in Jersey than in the UK, fresh vegetables were almost a quarter more expensive in Jersey, and the price of meat was, on average, around 10% higher in Jersey than in the UK.

On 17 January 2013, the Minister requested that the JCRA, under Article 6(4) of the *Competition Regulatory Authority (Jersey) Law 2001*, undertake a study of the retail supply of groceries in Jersey. This market study was launched on 27 February 2013.

The Minister concurred with the JCRA's view that the market study should encompass all products sold at supermarkets (i.e. groceries), rather than merely foodstuffs. In addition, the way in which goods are supplied to, and retailed in, Jersey suggested that looking at the issue in terms of the scope of the usual retailing function (rather than a small sub-set of what is sold) was more likely to highlight any problems, should they exist.

The Competition (Guernsey) Ordinance, 2012 (**Ordinance**) does not currently provide the Guernsey Competition and Regulatory Authority (**GCRA**), when it is conducting a market study, with the powers to compel undertakings to provide information that is requested. However, the Commerce & Employment Department in Guernsey expressed its support for the GCRA to undertake a market study into the retail supply of groceries in Guernsey and the JCRA and GCRA together, as the Channel Islands Competition and Regulatory Authorities (**CICRA**), determined that a single study should be undertaken, covering grocery retailing in Jersey and Guernsey, and that a single report would be produced. Given that many of the main grocery retailers operate across both islands, the main supply chain is shared, and many of the features of the respective markets were likely to be very similar, the Minister supported a pan-Channel Islands approach.

The terms of reference for the study can be found in Appendix A.

1.1. Grocery retailers and supermarkets

For practical reasons, it was necessary to limit the scope of the study. It was not possible, with limited resources, to cover all suppliers of groceries including convenience stores, farm shops and outlets associated with petrol stations. We therefore focused on those suppliers where we judged people were most likely to do a “weekly grocery shop” – that is, the supermarkets operated by:

- The Channel Islands' Co-operative Society Limited (**The Co-operative**)²;
- Waitrose (Jersey) Limited and Waitrose (Guernsey) Limited (**Waitrose**);
- SandpiperCI Limited (**SandpiperCI**) operating Food Hall and the franchises of M&S Jersey and Iceland;
- Creasey's (Franchise) Limited (**Creasey's**), operating the franchise of M&S Guernsey;
- Forest Stores Ltd (**Forest**); and
- Alliance Limited (**Alliance**).

96% of respondents to our consumer survey in Jersey and 99% in Guernsey, who did a weekly shop, said they used the suppliers listed above.

When we use the term 'supermarkets' in this report, we usually mean those suppliers listed above, or the stores of those suppliers. When we use the term 'grocery retailer' in this study, we mean all grocery retailers active in Jersey and Guernsey.

While this study focusses on supermarkets, we acknowledge that sales of groceries also take place at fuel forecourts such as Co-op enroute and Checkers Xpress, at convenience stores such as Checkers Xpress in both islands and Island Shopper in Guernsey, and at farm shops. Farm shops are a more prominent and important part of grocery shopping in the Channel Islands than in most regions of the UK. However, many of the products that farm stores sell, i.e. fresh local produce, do not lend themselves to direct comparisons with other jurisdictions and we were conscious that our information requests would impose a disproportionate burden on smaller retailers such as farm shops and some convenience stores. Nevertheless, in recognition that groceries are bought at farm shops, within the consumer survey, we asked, for example if consumers shopped at farm shops.

1.2. Groceries

The supermarkets sell a wide range of goods including household consumables, tobacco, newspapers, alcohol, lottery tickets, clothes, crockery and homeware. By 'groceries' we mean household consumables and food and drink (including alcohol), products that consumers would fill a shopping basket with for a weekly shop. We have not included tobacco in this study, as this is dealt with in a separate market study report by the JCRA due to be published shortly.

1.3. Information sources

Most of the company-specific information in this report has been obtained directly from supermarkets in response to our information requests and our interviews and meetings with them. We have also used data from supermarkets' accounts, publicly available information from various sources, legal websites and economic research material. We carried out a consumer survey between May and June 2013, which has been published alongside this report and is available on the CICRA website.

² Excluding Co-op enroute

In Jersey, we used formal powers to collect information for this review. These powers are a consequence of the Minister's formal request to examine the groceries market. In Guernsey where we currently have no such formal powers when conducting market studies, we are grateful to the Guernsey supermarkets for the co-operation and transparency shown in providing all of the information requested on a voluntary basis.

2. SECTOR STATISTICS

2.1. Demand and supply

Incomes in Jersey and Guernsey are, on average, higher than in the UK. For example, in Jersey equivalised incomes were around 64% higher (2009/10) than in the UK (2008/09), before housing costs and 52% higher after housing costs were taken into account³.

Households in Jersey and Guernsey, on average, spend more on food than households in the UK. In Jersey, the average household expenditure on food and non-alcoholic drinks⁴ was £74 per week⁵, while in UK it was £53.40 per week in 2012⁶.

Jersey and Guernsey do not appear to be under-supplied with supermarkets in terms of grocery sales area per head of population. Based on the supermarkets included in this study, and the focus of the UK Competition Commission's 2008 groceries report⁷, there is about:

- 0.19 m² of grocery sales area per head of population in Jersey;
- 0.26 m² in Guernsey; and
- 0.15 m² in the UK.

These figures were derived from the populations:

- Jersey, 99,000 (2011);
- Guernsey, 63,000 (2012); and
- UK 63 million (2012).

And the total estimated grocery sales areas:

- Jersey, 18,400 m²;
- Guernsey, 16,700 m²; and
- UK, 9.2 million m².

We estimated the UK sales area by taking the total sales area of 9.2 million m² cited in the 2008 UK Competition Commission report, and scaling it up by the rate of growth at the time of that report (1% a year)⁸. This figure was for large grocery retailers and the deep

³ Statistics Unit (2011) *Jersey Household Spending Survey 2009/10*

⁴ Income spent on food and non-alcoholic drink is a standard statistic that is available in Jersey, Guernsey and the UK

⁵ Statistics Unit (2011) *Jersey Household Spending Survey 2009/10*. In Guernsey, the figure from 2005/6 was £72.76 per week according to the *Guernsey Household Expenditure Survey 2005/6*

⁶ ONS, *Weekly household expenditure - an analysis of the regions of England and countries of the United Kingdom*, February 2013

⁷ UK Competition Commission (2008) *Final Report on The Supply of Groceries in the UK*

⁸ The figure includes Tesco, Sainsbury's, Asda, Morrisons, Iceland, M&S, Waitrose and Somerfield, Co-operative, Aldi, Lidl and Netto. It excludes non-food only stores and M&S non-food space

discounters (or limited assortment discounters)⁹, which at the time included 9300 stores, and gives an average store size of 990m².

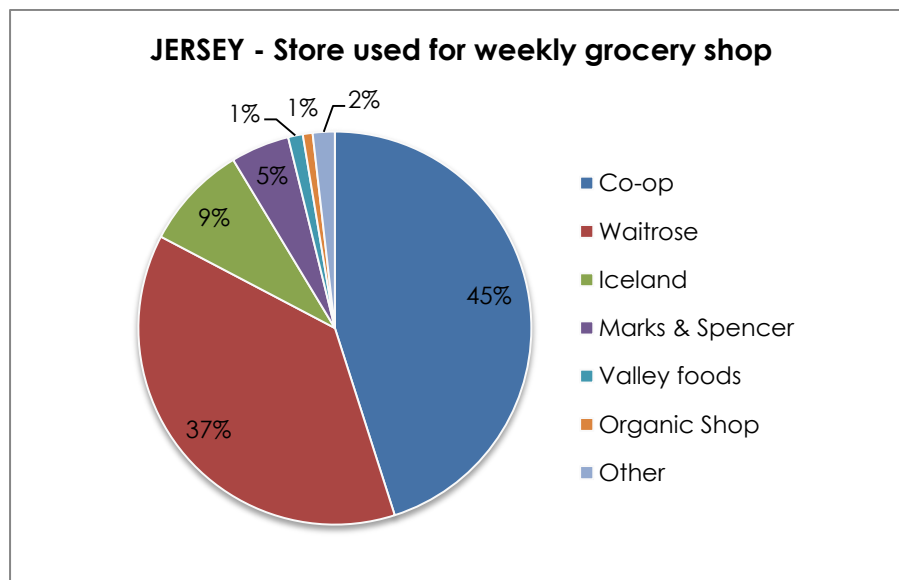
Data for Jersey and Guernsey was collected from the grocery retailers active in Jersey and Guernsey for the supermarkets that are the focus of this study.

2.2. Supermarket stores

Jersey consumers have the choice of five brands of supermarket – Waitrose, The Co-operative, Iceland, Food Halls¹⁰ and M&S. Guernsey consumers have the choice of seven brands - the supermarket brands active in Jersey, plus Forest and Alliance.

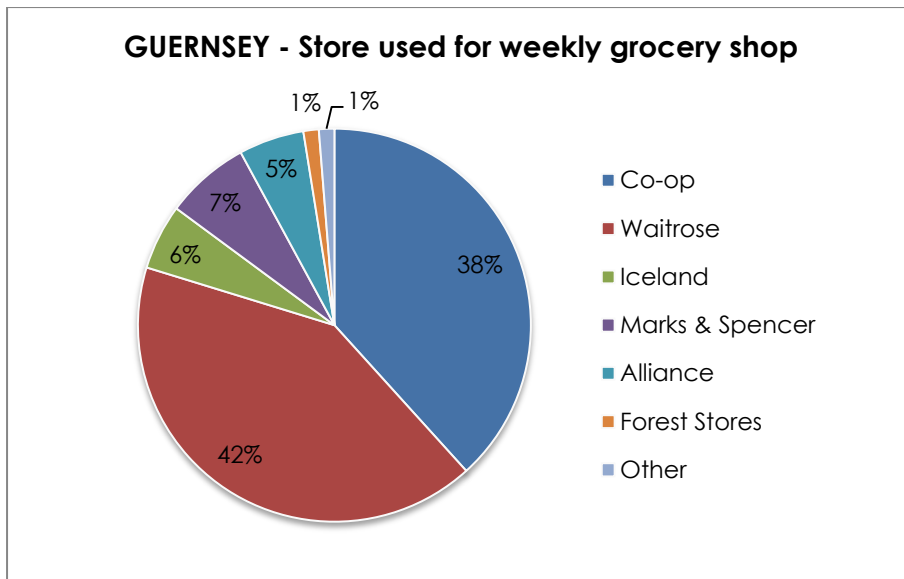
96% of respondents to our consumer survey in Jersey and 99% in Guernsey, who did a weekly shop, said they used the Jersey and Guernsey suppliers listed below in Figure 2.1.

Figure 2.1 Results from consumer survey, stores used for a weekly grocery shop



⁹ Limited assortment discounter (LAD) comes from the UK Competition Commission's 2008 groceries market study report. The Competition Commission used the term LAD to mean stores carrying a limited range of grocery products and stores that base their retail offer on selling these products at very competitive prices

¹⁰ Food Hall Benest's Millbrook, Food Hall Castle Quay and Food Hall St Ouen



UK consumers have the choice of at least ten brands of supermarket, although not all are available in every region:

- Asda¹¹
- The Co-operative/Somerfield
- Iceland
- Morrisons
- Sainsbury's
- Tesco
- Waitrose
- Aldi
- Lidl
- M&S

The choice in the UK includes stores known to discount more heavily than others, such as Aldi and Lidl, whose market shares have been growing rapidly, Aldi's UK market share has grown from 3.0% to 3.9% in the last year alone¹². Data from Kantar Worldpanel in November 2013 shows the UK's "big four" – Tesco, Asda, Sainsbury's and Morrisons – are losing market share, while Aldi, Lidl and Waitrose are gaining.

The Competition Commission used the term LAD to mean stores carrying a limited range of grocery products that base their retail offer on selling these products at very competitive prices. At that time, the three major LADs in the UK were Aldi, Lidl and Netto. When we did our "real life shop", we were able to find the products in our basket in Aldi and Lidl,

¹¹ Netto was acquired by Asda in 2010

¹² Kantar Worldpanel, 2013

although there was a limited range of options for each product, so it may be the case that the term LAD is now somewhat out of date.

In Jersey, the supermarkets belong to three corporate groups and in Guernsey the supermarkets belong to six corporate groups – as shown in table 2.1 and 2.2.

Table 2.1 Jersey supermarkets with stores included in the study

Jersey supermarket	Number of stores	Average sales area in square metres
SandpiperCI (Iceland, Food Hall and M&S Jersey)	12	501
Waitrose	3	1860
The Co-operative	11 (plus 2 enroute stores falling outside our definition of supermarkets)	615 (excluding enroute stores)
Total	26	Total sales area:18400 (average store size: 707m²)

Table 2.2 Guernsey supermarkets with stores included in the study

Guernsey supermarket	Number of stores	Average sales area in square metres
Creasey's (M&S Guernsey)	3	450
Waitrose	2	3380
The Co-operative	6 (plus 4 enroute stores falling outside our definition of supermarkets)	610 (excluding enroute stores)
SandpiperCI (Food Hall and Iceland)	5	424
Forest Stores	1	280
Alliance	1	2500
Total	18	Total sales area: 16700 (average store size: 927m²)

The supermarkets, with stores included in this study, together operate twenty-six stores in Jersey, with an average sales area estimated at 707 m², and eighteen stores in Guernsey, with an estimated 927 m² average sales area¹³. As discussed earlier, the supermarkets included in the UK Competition Commission’s study operated 9,300 stores at that time, with an average sales area of 990 m². In comparison, the average store size in Guernsey is about the same size as the average store size in the UK, while the average store size in Jersey is about 30% smaller. The larger stores of Alliance and Waitrose contribute to this: the three largest stores in Guernsey make up 16% of the total sales area capacity and the sales floor area for these three stores is not significantly out of line with the UK average. For example, in February 2013, 22% of Tesco’s supermarkets in the UK were between 1858 and 3716 m². However, it is not surprising that the very largest supermarkets found in the UK are not seen in the much smaller Guernsey and Jersey markets (and would not be found in all regions of the UK).

Table 2.3 Distribution of Tesco store sizes¹⁴

From (m²)	To (m²)	% of stores
0	279	11.40
279	1858	10.10
1858	3716	22.80
3716	5574	24.60
above 5574		31.10

¹³ These figures exclude non-food only stores, UK M&S non-food space and includes a CICRA estimate for the sales area at M&S King Street, Jersey based on a figure given to us by Sandpiper for two floors retail, including clothing and one floor of office administration

¹⁴ Tesco 2013 preliminary results

3. PRICE COMPARISONS

There is no single best way to compare supermarket prices between Jersey, Guernsey and the UK. Different supermarkets stock different goods and consumers may decide to shop at a certain supermarket because of perceived (and actual) price and quality differences, making direct comparisons of products difficult. In any price comparison it is not possible to correct for all differences in quality, including the facilities, services, and quality of the stores themselves.

In order to take an overall view, we have used two different methods to compare prices.

The first method was to calculate the weighted average price difference between a supermarket's stores in Jersey and Guernsey and their stores in the UK, for a list of their top-selling 500/1000 Jersey and Guernsey grocery items. The second method was to do a "real life shop" for a basket of typical basic items, trying to find the cheapest available examples in each store visited in Jersey, Guernsey and the UK.

3.1 Weighted average price differences for basket of top 500/1000 grocery items

In our first method, we asked The Co-operative and Waitrose for the volumes of their best-selling 1000 grocery items by sales value in the Channel Islands in 2012, and the M&S franchise in each island for their top 500 best-selling grocery items by sales value in 2012. We then asked for the price of those items in their Jersey, Guernsey and UK stores. We stripped out all taxes and duties, and compared the prices weighted by volume sold in Jersey and Guernsey.

The UK price data for The Co-operative was given for stores that are in the same 'buying group' as The Co-operative in Jersey and Guernsey. This buying group is made up of about 1774 stores. Two sets of UK price data for M&S were provided – for stores operated by M&S plc and for M&S franchises. In the results, we show both of these comparisons for M&S.

An advantage of this approach is that, in theory, it uses good quality data direct from the retailers, for a large sample of identical products (i.e. there is no debate about differences in the quality of certain goods).

The disadvantages of the approach are that:

- the sample excludes supermarkets not present in Jersey or Guernsey;
- the weighting used only Jersey and Guernsey volume data and customers will tend to buy higher volumes of those products that are best value in the Channel Islands, and these will not necessarily also be the best value in the UK – this means the comparison may make the Channel Islands look cheaper than if UK buying patterns could also be reflected; and
- the products were selected based on Jersey and Guernsey sales data and it may be the case that there is a wider range of products available in the UK, which may be cheaper, but will be excluded from the price comparison analysis – this may make

Jersey and Guernsey look cheaper than they would do if consumers had the choice of a wider range of products.

Unfortunately, the theoretical advantage of this approach did not turn out to be as clear in practice as we had hoped. As we finished the analysis, one of the supermarkets, The Co-operative, told us that the volume data it had supplied to us was wrong and it was unable to correct it. We have used a different approach to weight the price differences for this supermarket based on sales value, but this approach will not necessarily give the same results as using volume data. Later still, in response to our queries about the UK price data, The Co-operative told us it was unable to confirm that certain of its UK price data was indeed correct.

We have taken account of these features of the data and the disadvantages of the methodology, when considering the results overall.

3.2 “Real life shop” to find the cheapest basic shopping basket

In our second method, on a single date in November 2013, we “shopped” for a basket of goods made up of grocery items consistent with relevant sections of the basket of groceries that the UK Office for National Statistics uses to monitor overall retail prices.

The advantage of this approach is that it is a practical way to bring into the price comparisons a larger number of UK supermarkets, including the LADs not available to consumers in Jersey and Guernsey, as well as an Isle of Man supermarket.

The disadvantages of the approach are:

- it is a “rough and ready” method using a small sample of goods – the results are very likely to contain human error in collecting and recording the data, and in identifying the cheapest product; and
- the relevant products available in each supermarket will often be different in terms of type, quality and weight (although we made adjustments for different weights).

Our grocery basket consisted of basic products, such as bread, pasta and instant coffee etc. The “real life” shopping list is at Appendix B.

We tried to find the cheapest available example of the product in each supermarket that we visited.

We visited, or shopped online, at the following supermarkets:

- UK – Waitrose, M&S, Co-operative, Iceland, Tesco, Asda, Aldi, Lidl;
- Jersey – Waitrose, M&S, Co-operative, Iceland, Food Hall;
- Guernsey – Waitrose, M&S, Co-operative, Iceland, Alliance, Forest, Food Hall; and
- Isle of Man – Tesco.

3.3 Price comparisons – results

Weighted average price difference for basket of top 500/1000 grocery items

Table 3.1 sets out the results of top 500/1000 weighted basket exercise. The prices of items on promotion are included in the ranges of the results.

Table 3.1 Results of weighted average price difference for top 500/1000 basket (all excluding taxes)

Supermarket	Jersey prices compared to equivalent supermarket in UK	Guernsey prices compared to equivalent supermarket in UK
The Co-operative ¹	1.8% cheaper	1.2% cheaper
Waitrose ²	7.5%–8.0% more expensive	8.3%-8.4% more expensive
Marks& Spencer ³	Between 5.7% cheaper (M&S franchise stores) and 7.8% more expensive (M&S plc stores)	Between 5.3% cheaper (M&S franchise stores) and 8.4% more expensive (M&S plc stores)

Notes to Table 3.1

¹ If an estimated allowance is made for the difference between the Co-operative ‘dividend’ available in the Channel Islands and in the UK, Jersey Co-operative stores in these results could show as 5.8% cheaper than a UK Co-operative (in the same buying group) and in Guernsey 5.2% cheaper.

² The range corresponds to results from analysing price data from both Quarter 3 and Quarter 4 2012.

³ There are different franchisees in each island. The range corresponds to whether M&S Channel Islands’ prices are compared to price data for UK stores operated by M&S plc stores or M&S franchise stores. No price data for alcohol was available for UK M&S franchise stores.

We were able to include price data for 69% (by sales value) of the top 1000 items supplied by The Co-operative and at least 86% of the items from the other two supermarkets (top 1000 for Waitrose and top 500 for M&S). It was not practically possible to estimate the promotional prices represented by M&S meal deals, so standard prices were used. The number of items affected was between 0.5% and 5.7%.

The Co-operative dividend in the UK has typically been 1%, but was 0% last year and 0% this year, with an offer of 10% off vouchers in the run-up to Christmas. This compares with a consistent 4% dividend in the Channel Islands and 8% on Tuesdays and Wednesdays (excluding December). Overall, and taking into account the high proportion of customers we expect to benefit from the CI dividend, we consider that the difference may be worth about 4% to Channel Islands customers.

For the reasons noted above – issues with the data and methodology – we would be cautious about making any inferences as to the differences between the relative positions of the three Channel Island supermarket brands included in the analysis (i.e. The Co-operative vs. Waitrose vs. M&S). These issues also constrain our confidence in drawing strong conclusions

from individual results. Taking account of the caveats on the data and the drawbacks from the methodology, we conclude that these results indicate that prices in Jersey and Guernsey supermarkets, for the product ranges offered, are very likely to be less than 10% higher than the equivalent UK supermarkets.

There appears to be almost no weighted average price difference between Jersey and Guernsey for any of the supermarkets; i.e. this methodology indicates that consumers in Jersey and Guernsey pay about the same for groceries (excluding tax).

We recognize that the actual price paid is important to consumers and that it is influenced by the imposition of GST in Jersey, the imposition of VAT on some grocery items in the UK, the absence of any sales tax in Guernsey and varying rates of alcohol duty in the three jurisdictions. However, because these are all outside the control of retailers, we have not included these elements within the top 500/1000; but both the actual price paid and the actual price paid, net of duty and taxes, have been included in our “real life shop” example.

It is also acknowledged that the price analysis was completed prior to the closure in September 2013 of Warry’s Bakery and CI Bakery, which were the largest bakeries in Guernsey and Jersey respectively. Bread will have been under-represented in the top 500/1000 basket in comparison to now, because we excluded products that were not available in each of the three jurisdictions (including all the products supplied by these two bakeries). We observe that after the closures, some retailers have increased the range of breads they stock, now that they rely more heavily on imports; although certainly in Guernsey, demand for local bread has increased to such an extent that one local bakery is expanding plant production¹⁵.

As well as the headline weighted price differences between the Channel Islands and the UK, we examined different categories of grocery item. Where the data was available, we compared the weighted price differences for:

- items subject to UK VAT (typically, household goods, confectionary, drinks), and VAT free items (most, but not all, food);
- chilled and ambient items;
- own brand and non-own brand items;
- non-food items versus alcohol versus non-alcoholic food items; and
- meat and fish versus fruit versus vegetable versus other non-alcoholic food items.

In undertaking this analysis, we have tried to reduce the impact of the inaccuracies introduced by the data we suspect may be erroneous – the following figures are relative. So for alcohol, the figure is the difference between alcohol and non-alcohol products in terms of their prices relative to the UK. In addition, we removed taxes and duties.

We found that alcohol in Jersey and Guernsey appeared consistently more expensive than non-alcoholic food items (after stripping out taxes and duties), in terms of prices relative to the UK – by between 11 and 15 percentage points. As explained above, these figures do not mean that alcohol products were 11%-15% more expensive than in the UK. What it means is

¹⁵ *Guernsey Press*, 23 October 2013

that when comparing differences between UK and Channel Island prices, the price difference for alcohol was 11% – 15% more than for non-alcoholic food items in the Channel Islands basket.

Items which attracted VAT in the UK were, in Jersey and Guernsey, more expensive than VAT-free items in terms of prices relative to the UK - by between 5 and 14 percentage points. This may in part be a result of pricing policies in Jersey and Guernsey, in particular where packaging has the *post VAT* price printed on it (see chapter 5).

Vegetables in Jersey and Guernsey appeared consistently more expensive than fruit, meat and fish in terms of prices relative to the UK, but the difference varied widely across the supermarkets – from 1.5 to 15 percentage points higher.

Non-food items in Jersey and Guernsey tended to be more expensive than food items (excluding alcohol) in terms of prices relative to the UK, again with a wide range – by between 0 and 14 percentage points.

Similarly, ambient items in Jersey and Guernsey tended to be more expensive than chilled items in terms of prices relative to the UK – by between 1 and 8 percentage points.

There was no discernible trend for own-brand items.

“Real life shop” to find the cheapest typical shopping basket

The “real life shop” is a rough and ready methodology and the ‘shoppers’ needed to make judgment calls about comparable products and sizes of products. Two of the issues that made the comparisons challenging were a) the unavailability of the pack sizes we sought and b) how to deal with the availability of multi-buy offers when only a single item was included in the shopping list. We therefore:

- sought the cheapest example of the pack size closest to that on the shopping list, and scaled the price to take account of the different pack sizes available; and
- undertook three different methods of analysis of the data, varying whether we included multi-buy offers or not, and whether we excluded items that were only available in pack sizes more than double the size on the shopping list.

Applying our price and pack size selection criteria sometimes involved judgement akin to a “real life shop”, for example if a larger pack size was cheaper or nearly as cheap than the size on our list.

We found that the results from the three different methods of analysis did not differ to a very significant extent – giving us confidence in the overall conclusions – as shown below in tables 3.1 and 3.2. The ranges of the results in tables 3.1 and 3.2 across the three analytical methods are generally narrow.

It is important, in considering the results, to bear in mind that we could not make any adjustments to take account of differences in quality between the products available and the products chosen in different supermarkets. For this reason, we have not disclosed the identity of the individual supermarkets, replacing their names with the letters A, B etc.

Of the three comparisons, we prefer the comparison that includes items where the available pack size was more than double the size sought, if that was all that was available, and

includes multi-buy offers. We think this is closest to what a consumer would decide to do when faced with our shopping list and the available choices. Where we discuss figures in the text, outside the tables below, we generally use comparison 2 in the tables.

Table 3.2 “Real life shop”: Costs of shopping baskets in analysis (excluding tax and duties)

Location	Store	1) Includes items where available pack size more than double the size sought; excludes multi-buy offers	2) Includes items where available pack size more than double the size sought; includes multi-buy offers	3) Excludes items where available pack size more than double the size sought; excludes multi-buy offers
Jersey	A	£53.08	£51.86	£43.94
	B	£70.10	£68.19	£61.78
	C	£44.78	£44.61	£39.67
	D	£45.80	£42.48	£39.96
	E	£64.42	£62.40	£54.54
Guernsey	A	£56.03	£56.03	£45.74
	B	£52.64	£50.58	£46.18
	C	£62.79	£61.55	£53.75
	D	£47.94	£47.45	£42.83
	E	£69.24	£69.24	£61.60
	F	£65.62	£63.86	£57.09
	G	£47.02	£46.54	£39.29
IoM		£29.72	£29.72	£26.68
UK	A	£50.76	£49.66	£43.48
	B	£53.13	£52.86	£47.15
	C	£39.03	£38.39	£33.99
	D	£28.57	£28.17	£25.31
	E	£37.73	£37.44	£32.78
	F	£30.81	£30.61	£26.81
	G	£29.04	£29.04	£24.34

Relevant figures take account of estimated 4% more generous Co-operative dividend in CI compared to UK

Table 3.3 Price differentials found in “real life shop” analysis (excluding tax and duties)

	Difference between cheapest shop at <i>any</i> supermarket	Difference between (simple) average cost of shop in each territory	Difference between cheapest shop – if UK supermarkets not present in Channel Islands excluded
Jersey compared to UK	51-63%	38-41%	11-17%
Guernsey compared to UK	61-65%	43-44%	16-21%
Jersey compared to Isle of Man	43-51%		
Guernsey compared to Isle of Man	47-58%		

Table 3.4 “Real life shop”: Costs of shopping baskets in analysis (including tax and duties)

Location	Store	1) Includes items where available pack size more than double the size sought; excludes multi-buy offers	2) Includes items where available pack size more than double the size sought; includes multi-buy offers	3) Excludes items where available pack size more than double the size sought; excludes multi-buy offers
Jersey	A	£65.27	£63.99	£55.67
	B	£83.14	£81.16	£74.41
	C	£56.56	£56.38	£51.19
	D	£57.23	£52.70	£51.10
	E	£77.17	£75.02	£66.80
Guernsey	A	£65.03	£65.03	£54.74
	B	£61.28	£59.22	£54.82
	C	£71.79	£70.55	£62.75
	D	£54.60	£54.10	£49.49
	E	£78.23	£78.23	£70.59
	F	£74.30	£72.36	£65.77
	G	£56.02	£55.54	£48.29
Isle of Man		£41.27	£41.27	£38.17
UK	A	£63.13	£62.02	£55.72
	B	£68.31	£67.52	£60.08
	C	£51.23	£50.59	£46.13
	D	£40.09	£39.69	£36.78
	E	£50.13	£49.84	£45.13
	F	£42.48	£42.28	£38.38
	G	£40.47	£40.47	£35.66

Relevant figures take account of estimated 4% more generous Co-operative dividend in CI compared to UK

Table 3.5 Price differentials found in “real life shop” analysis (including tax and duties)

	Difference between cheapest shop at any supermarket	Difference between (simple) average cost of shop in each territory	Difference between cheapest shop – if UK supermarkets not present in Channel Islands excluded
Jersey compared to UK	33-44%	27-30%	4-11%
Guernsey compared to UK	35-36%	24-25%	5-7%
Jersey compared to Isle of Man	28-37%		
Guernsey compared to Isle of Man	27-32%		

A Guernsey consumer - shopping for our basket of items at the cheapest price they could find¹⁶ in any of the supermarkets included in our exercise would have paid (including taxes and duties) £54.10 and a Jersey consumer £52.70, compared to a UK consumer paying £39.69. Therefore, a Guernsey consumer would have paid £14 (36%) more, and a Jersey consumer £13 (32%) more, than a consumer in the UK.

If taxes and duties, which vary between Jersey, Guernsey and the UK, are stripped away, a Guernsey consumer would have paid about 60% more and a Jersey consumer about 50% more, than a consumer in the UK. Much of the price difference appears to arise because of the absence in Jersey and Guernsey of a number of the cheaper UK supermarkets.

3.4 Earlier price comparisons

JCRA - Comparison of Food Prices in Jersey and the United Kingdom, 2005

In October 2005, the JCRA published a study: *Comparison of Food Prices in Jersey and the United Kingdom*.

In the study, prices of various food items were gathered from four convenience stores and four supermarkets in Jersey for the months of March to June 2005 inclusive and were compared with the prices in four UK supermarkets for the same months.

The prices for the Jersey supermarkets were averaged for each month and compared with the average prices for the UK supermarkets. Prices were also gathered for some additional fresh foods during July and compared. Overall forty branded products, six types/brands of bread, four types of vegetable and milk were surveyed.

¹⁶ Note that the consumer would also need to be willing to choose multi-buy offers and larger pack sizes

The study found that the majority of products surveyed were 10% to 17% more expensive in Jersey than the UK. A few were very similarly priced and very few were cheaper in Jersey. No overall average price difference between Jersey and the UK for the basket of items was given (nor were the actual prices recorded). It is therefore difficult to make a direct comparison of the findings of the 2005 report and the current analysis we have undertaken.

The report's primary conclusions were:

1. The majority of food products surveyed are more expensive in Jersey than in the UK, with some products being significantly higher priced. Historic below-cost pricing for some products in the UK, however, complicates price comparisons.
2. The price differential for food between Jersey and the UK probably is attributable to several factors.
3. One contributing factor is the higher cost of doing business in Jersey compared to the UK. The cost of labour appears significantly more expensive in Jersey, as much as 40% higher than in the UK. Other increased costs, such as transport, are also likely to be factors. The effect of increased costs on retail prices multiply across the food supply chain, to the extent that activities are carried on in Jersey.
4. A second contributing factor consists of inefficiency and lack of scale economies in Jersey that appear to exist in several levels of the food supply chain. Farming is expensive in Jersey compared to the UK. Jersey's food producers and retailers are very small scale and probably do not achieve economies of scale comparable to UK equivalents.
5. Another likely contributing factor is the high market concentration levels in Jersey compared to the UK in markets for food production, distribution and retail sale. High levels of market concentration can result in less competition and higher prices, based on actions by competitors that may or may not violate competition law.
6. Differences in consumer purchasing habits may exist in Jersey compared to the UK, and if so, they also could contribute to price differentials.

The study also noted that:

- during the course of the study, the number of operators of Jersey supermarkets reduced from three to two, with CI Traders' acquisition of Safeway;
- Tesco had decided to compete in the Isle of Man but not Jersey, although the former is a less wealthy jurisdiction with a more widely dispersed population; and
- potential interest from the major French supermarket retailer Carrefour in opening a Jersey store had subsided.

The study recommended that consideration should be given to whether current States requirements or policy may create or significantly contribute to large retail businesses opting not to enter the Jersey market. This has relevance to our discussion of barriers to entry and planning (see chapter 6).

States of Jersey Statistics Unit - Comparison of consumer prices, 2013

The States of Jersey Statistics Unit (**Statistics Unit**) publishes regular reports comparing consumer prices between Jersey, Guernsey and the UK, including for food and alcohol.

The June 2013 report *Comparison of consumer prices* found that food prices in Jersey and the UK had risen approximately the same percentage since June 2005 (42%-45%), but less rapidly in Guernsey (30%). Since June 2005, the price of alcohol had increased faster in Jersey and Guernsey (by 44%-46%) than in the UK (32%). The price increases in Jersey included the introduction and increase in the rate of GST.

The report also published comparisons of Jersey prices with the UK and with Guernsey for a range of food and alcohol. It found in June 2013:

- meat was 16% more expensive in Jersey than the UK;
- fresh fish was 7% more expensive;
- fresh fruit was 42% more expensive;
- fresh vegetables were 30% more expensive;
- milk was 36% more expensive; and
- bread was about 31% more expensive.

The price differences for food were *post* GST and VAT. VAT in the UK is unlikely to apply to the food items listed above so, if GST were netted off, as in our core analyses, we would expect the recorded price differences to reduce, but remain significant for most of these food items.

The Statistics Unit report found also that alcoholic drinks were 14%-15% more expensive in Jersey than the UK, including taxes and duties, and 35%-44% more expensive if taxes and duties were excluded.

Jersey and Guernsey prices were more similar than between the UK and Jersey, with variation as to which island was cheapest for any given product. No average price differences between Jersey and Guernsey were given in the report.

Broadly, the price differences between the UK and Jersey recorded in the Statistics Unit report fall in between the figures in our two analyses: the top 500/1000 Channel Island products analysis and our “real life shop”. This may lend support to our findings, and in particular to the impact of the absence in Jersey and Guernsey of a number of UK supermarkets which offer a greater choice of cheaper products.

3.5 Price comparison conclusions

From our top 500/1000 analysis, we conclude that the difference in prices between the UK, and Jersey and Guernsey, for the grocery products available in the Channel Islands, is unlikely to be greater than 10%.

It may be the case, however, that the range of grocery products available in Jersey and Guernsey supermarkets excludes some of the cheaper choices available in the UK. This could be consistent with supermarkets responding to their customers and the different

demographics of the Channel Islands, where there are higher average incomes; or it could be a reflection that the supermarkets are more expensive than our analysis shows because choice is limited to more expensive items than are available in the UK.

According to our “real life shop” analysis, a UK consumer seeking a basket of typical groceries at the lowest possible price, would be able to do so (excluding taxes and duties) at a considerably cheaper price than a Jersey or Guernsey consumer (noting that the items bought may not be equivalent quality). The majority of this difference appears to be because of the absence in Jersey and Guernsey of a number of the cheaper UK supermarkets.

The main implication of these price comparisons is that while grocery retailers with a presence in both the Channel Islands and the UK appear not to charge substantially higher prices overall in the Channel Islands, those consumers on the tightest budgets in Jersey and Guernsey, or who would choose to shop for lower priced goods if they were available, are disadvantaged through the absence of cheaper supermarkets that are available to the UK consumer.

3.6 Cost comparisons

The availability of cost data for UK supermarkets, sufficient to make meaningful comparisons with the relatively small number of stores in Jersey and Guernsey, is very limited, particularly as most UK cost data is only available at a group level, i.e. it is averaged across a wide range of regions in the UK. In reality, different supermarkets in different regions of the UK are likely to have very different cost structures. For example, a Tesco store in rural Cornwall, at some distance from the nearest distribution centre, will have a very different cost structure than a very large Tesco Superstore, in southern England, much closer to a national distribution warehouse.

Given that there is a less than 10% price difference between the prices of products that are available in Jersey and Guernsey, and the prices of the same products at the same retailers in the UK, it is plausible that additional costs account for a substantial proportion of this difference. It may be, however, that the price difference between Jersey and Guernsey, and the UK, is greater when considering differences in the range of products – i.e. cheaper product ranges may not be available in the Channel Islands. And so, if competitive pressures were greater, Jersey and Guernsey supermarkets may be spurred to respond by driving cost savings, and lowering prices or stocking a wider range of lower priced goods.

The main, but not all, of the cost differences that supermarkets in Jersey and Guernsey may face may be due to:

- labour costs;
- land and property costs;
- lower volumes, or differences in store sizes, or shorter opening hours; and
- shipping and freight costs between the UK and Jersey and Guernsey, and costs of on-island distribution.

The data that is publically available, some of which can be compared to data collected from the supermarkets in Jersey and Guernsey, is shown below, in table 3.6.

Table 3.6 Costs and profitability of UK supermarkets 2012-2013

	Sainburys (5)		Waitrose		Coop food		Iceland (6)		Morrisons (7)	
	£m	% T/O	£m	% T/O	£m	% T/O	£m	% T/O	£m	% T/O
Revenue	23,300		5760		7440 (3)		2640		18,100	
Labour (8)			1050 (1)	18%	1230 (4)	17%			1950	10.8%
Underlying EBITDAR	1820	7.8%					226	8.6%		
Underlying operating profit	829	3.5%	292 (2)	5.1%	288	3.9%			949	5.2%

(1) Based on total staff costs of John Lewis Partnership multiplied by proportion of JLP staff in Waitrose.

<http://www.johnlewispartnership.co.uk/content/dam/cws/pdfs/financials/annual%20reports/JLP-report-and-accounts-2013.pdf>

(2) About £132m of this is paid as a 'Partnership bonus' for Waitrose staff

(3) http://www.co-operative.coop/Corporate/PDFs/Annual-Report/2012/TCG_Annual-Report-2012.pdf

(4) Estimated proportion of reported £1710m of group staff costs (72,700 staff in food out of 101,300)

(5) http://www.j-sainsbury.co.uk/media/1616189/sainburys_ara.pdf

(6) <http://www.iceland.co.uk/assets/files/Iceland-Foods-Group-2013-results-FINAL.pdf>

(7) http://www.morrisons-corporate.com/2013/annualreport/downloads/Morrisons_Group_financial_statements_2013.pdf

(8) Labour includes national insurance and pension contributions, where applicable

Labour costs

Labour costs have, in past reports, been quoted as being higher in Jersey¹⁷ than for supermarkets in the UK.

Comparing data collected from Jersey and Guernsey supermarkets with the data in table 3.6 showed labour costs in the Channel Islands, as a percentage of turnover, are not significantly out of line with the UK averages. Given the data limitations, it is not possible to be completely confident in the comparability of this data, but where possible we found data that included social security costs and pension costs for this comparison. Any significant price increases, reflected in turnover figures, would of course increase the turnover figures of the

¹⁷ JCRA (2005) *Comparison of food prices in Jersey and the United Kingdom*

Jersey and Guernsey supermarkets and so labour costs compared on this basis may appear lower.

Data was provided to us by retailers in a range of formats. One supermarket gave us figures showing the hourly rates paid for a range of supermarket staff - from store managers to customer assistants - that did not include social security/national insurance contributions. These figures showed that hourly rates were between 15% and 27% higher in the Channel Islands compared to the UK. A different supermarket calculated that its total weekly wage bill was 39% higher in the Channel Islands than for a comparable store in the UK, including social security/national insurance and pension costs, and that the average hourly rate was 57% higher in the Channel Islands.

Another supermarket provided figures showing that the cost of customer service staff, including social security/national insurance and pensions costs, was around 15% higher in the Channel Islands than in the UK, but more senior staff members, such as managers, cost about the same (plus or minus 5%, depending on the type of manager). A tentative conclusion, given the availability and quality of the data, could be that while wages appear higher in Jersey and Guernsey, the lower social security costs and perhaps other labour costs in the Channel Islands offset this, but only to some extent.

Smaller stores

Larger stores are likely to have lower unit costs. Each supermarket store is likely to have some fixed costs that do not vary with the number of customers served; administration for example and other costs that do not increase proportionally with the number of customers served. In particular, there are likely to be economies of scale in distribution arrangements to serve the largest stores.

Chapter 2 shows that the average store size in Guernsey is about the same as the average store size in the UK (with Jersey stores being smaller, on average, than in the UK) and the distribution of store sizes, for the sector as a whole in Guernsey, did not appear out of line with Tesco in the UK. In the UK, a large retailer is likely to have some stores that are much larger and more profitable than those found in Jersey and Guernsey and other stores that are less so.

It is difficult to conclude, either way, whether the smaller store sizes in Jersey and Guernsey would contribute significantly to extra costs and thus it is likely to vary, in any event, by supermarket brand depending on the size of their stores.

Property costs

It was not possible to make practical comparisons of property costs for supermarkets in Jersey and Guernsey and the UK – comparable data from the UK was not available for supermarkets at a sufficiently granular level. Previous reports¹⁸ have concluded that although commercial rents are higher in the Channel Islands, this may be offset, at least in part, by property rates being much lower.

¹⁸ JCRA (2005) *Comparisons of food prices in Jersey and the UK*.

Shrinkage

A retailer provided us with evidence that shrinkage (i.e. wastage) rates at its Channel Islands stores were materially higher than at its UK stores, and that the difference represented more than 1% of turnover. A factor contributing to higher shrinkage costs could include restrictions on Sunday opening (this is discussed in chapter 7). Other factors that might contribute to higher shrinkage costs are generally shorter opening hours (24 hour opening for supermarkets is common in the UK), the type of products stocked and the time required for transport of groceries to Jersey and Guernsey by sea.

Transport and distribution costs

One obvious difference that may drive higher costs is the sea crossing involved in the distribution of groceries from the UK to Jersey and Guernsey. Generally, groceries are imported by ferry and data from the Jersey and Guernsey supermarkets showed these costs were rising.

The distribution costs (comprising sea freight and on-island distribution) of Channel Islands grocery retailers vary, but average around 7% of turnover, whereas the best estimate of distribution costs for supermarkets in the UK is that they represent around 5% of turnover. Again, it should be noted that distribution costs in the UK are likely to vary significantly between regions and individual supermarkets: not all stores are close to a distribution centre and significant road mileage will be required to distribute groceries to stores, but retailers in the UK typically absorb the higher distribution costs to more remote supermarkets by adopting national pricing policies. Tesco's distribution centres in the UK, for example, are shown below in figure 3.1. Although, of course, Tesco is not active in either Jersey or Guernsey¹⁹, the general point we make from the examples below would still be valid for other supermarkets.

Assuming that the Tesco superstore in Penzance is served by the Tesco's Avonmouth distribution centre, then groceries would travel 190 miles by road and if the Tesco superstore in Inverness is served by the distribution centre in West Lothian, groceries would travel 160 miles by road. By contrast, to load a ferry in Portsmouth, bound for the Channel Islands, from Tesco's Southampton distribution centre, groceries would travel only 25 miles by road. So while it is the case that there is an extra sea transport leg involved to the Channel Islands, the cost of this is likely to be somewhat offset by the location of Portsmouth close to the densely populated South of England, at least compared to transporting groceries to other parts of the UK.

Supermarkets in Jersey and Guernsey gave us their best estimates of their distribution costs – these varied by supermarkets, but across all supermarkets were around 7% of total turnover²⁰. Equivalent, up to date, figures for the UK are difficult to find. A 2009 report²¹ by IGD quotes a range of distribution costs for various retailers (not all, but including some, supermarkets) as between 3.5% of turnover and 7.7% of turnover, with the average around 5% of turnover. It may well be the case that the Jersey and Guernsey supermarkets have distribution costs that are higher than the average costs in the UK – in the figures given above, the difference

¹⁹ Tesco has entered into a partnership with Alliance, rather than having an actual presence in Guernsey

²⁰ Exact figures are not given to protect the commercial sensitivity of the data provided by the supermarkets

²¹ IGD, *IGD publishes exclusive Costs and Productivity statistics*, June 2009

between the average reported by IGD and the broad average in Jersey and Guernsey, as a percentage of turnover, is two percentage points.

Figure 3.1 Tesco's distribution centres²²



EBITDA

Comparing measures of profitability, in order to infer whether a sector is competitive, is problematic – this is because in sectors where competition is not as fierce as it might be, excess profits may be consumed by inefficiency. That is, rather than a trader striving to be as efficient as it can be, it may simply be more inefficient than it would be if spurred on by competition. So comparisons of measures of profitability must be treated with caution.

Jersey and Guernsey supermarkets provided us with their estimates for earnings before interest, tax, depreciation and amortisation (**EBITDA**). Comparing these with the UK average figures in table 3.6 for earnings before interest, tax, depreciation and amortisation, restructuring and rent (**EBITDAR**) as a percentage of turnover, showed them to not be significantly out of line with the UK averages – with some Jersey and Guernsey supermarkets reporting higher, and others lower, figures. We note that the available measures we found are not directly comparable between Jersey and Guernsey and the UK, but the fact that supermarkets in Jersey and Guernsey fall either side of the UK range suggests this may be unproblematic.

²² From Tesco.co.uk, distribution centre finder

Cost comparisons - conclusions

It seems likely that distribution costs for Jersey and Guernsey supermarkets are towards the higher end of the range of average UK retail distribution costs. Labour costs are almost certainly higher for Channel Islands retailers than those in the UK; other costs, such as rents and utility costs may also be higher, and shrinkage – wastage – appears to be higher (at least based on figures supplied by one retailer). Assuming that there is a less than 10% price difference between the prices of products that are available in Jersey and Guernsey, and the prices of the same products at the same supermarkets in the UK, it is plausible that additional costs account for a significant proportion of this difference.

It may be, however, that the price difference between Jersey and Guernsey, and the UK, is greater when considering differences in the range of products – i.e. cheaper product ranges may not be available in the Channel Islands. And so, if competitive pressures were greater, Jersey and Guernsey supermarkets may be spurred to respond by driving cost savings, and lowering prices or stocking a wider range of lower priced goods.

3.7 Milk prices

Wholesale milk prices in Jersey and wholesale and retail milk prices in Guernsey are regulated and apart from in exceptional circumstances²³, fresh cow's milk cannot be imported into either island²⁴. The protection of the Jersey and Guernsey dairy industries raises social and cultural issues, as well as economic arguments about productivity and costs to consumers. Commenting on all of these arguments is outside the scope of this report. However, it would not be a comprehensive review of groceries if we ignored the higher price that Jersey and Guernsey consumers pay for milk – a staple in most shopping baskets – compared to consumers in the UK.

Milk regulation

UK

The Milk Marketing Board was a government agency established in 1933 to control milk production and distribution. It was a 'buyer of last resort' and therefore effectively set a minimum price for milk producers. *The Agriculture Act 1993* deregulated the UK's milk market. The milk market in the European Union (EU) is regulated by a quota system with Member States, including the UK, being set a national production quota. The EU milk quotas are being phased out, and the intention is that milk production in the EU will be liberalised in 2015.

The EU created a High Level Experts' Group on Milk²⁵ to work on a regulatory framework to be put in place for the medium to long term, which would contribute to stabilising the market and producers' income and enhance supply chain transparency.

This group concluded in 2010 and made many recommendations. A key recommendation was to allow producer organisations collectively to negotiate the price of milk – this was based on recognition that the processing level of the market is concentrated. The

²³ Controls are in place to allow imports of liquid milk in the case of shortages or emergencies

²⁴ *The Milk (Control) (Guernsey) Ordinance, 1967* and *Customs and Excise (Import and Export Control) (Jersey) Order 2006*, Schedule 2, Article 4

²⁵ <http://ec.europa.eu/agriculture/markets/milk/hlg/>

characteristics of milk – it is heavy to transport and perishes quickly – mean that the bargaining power of the farmer may be weak.

Jersey

In 1954 the States of Jersey established the Jersey Milk Marketing Board (**JMMB**), which established its own dairy – Jersey Dairy, a co-operative of 23 Jersey dairy farmers - responsible for the collection, quality control, production, distribution, sales and marketing of milk produced within the island.

There is one dairy in addition to Jersey Dairy, Classic Herd, describing itself as a small scale artisan producer of handmade products²⁶, selling milk and other milk products such as cheese through its own farm shop and some supermarkets. In Jersey, all dairy farmers receive subsidies via tax payer support, but Jersey Dairy itself is not subsidised with on-going support payments.

The wholesale price which retailers pay to Jersey Dairy is set by the JMMB. On 14 October 2013, JMMB announced a 3 pence rise in the price of wholesale milk, and said:

*The average local retail price of a litre of milk is **currently** 109p (including 5% GST) though prices do vary, from 99p upwards. Milk sourced from herds of Jersey and Guernsey cattle in the UK, retails there for 110p (where milk is not subject to the application of either GST or VAT).*

Jersey Dairy supplies milk in half litre and litre packs. Classic Herd also supplies milk in two litre plastic bottles.

Guernsey

Noting that milk is carved out of the Ordinance²⁷, legislation²⁸ in Guernsey prohibits the supply of milk other than through the Guernsey Dairy, which is owned by the States of Guernsey. The retail prices of milk in Guernsey are set by the States of Guernsey, on the recommendations of the Milk Review Panel, and the prices set in October 2013 were:

- skimmed, semi-skimmed, and full cream - litre 111 pence;
- skimmed, semi-skimmed, and full cream - half litre 63 pence;
- organic milk - half litre 81 pence.

There are nineteen dairy farmers in Guernsey, and twenty-six distributors – some delivering to homes, others to shops²⁹. In Guernsey, both dairy farmers and the dairy are subsidised by taxpayers in order to keep the retail price of milk down; the dairy farm management contract payment is currently 25 pence per litre and in 2010 cost the tax payer £2 million³⁰. A 2011 policy review report³¹ stated that:

²⁶ <http://classicfarmshop.com/organic-dairy/>

²⁷ Any matter in respect of which provision may be made under *The Milk and Milk Products (Guernsey) Law, 1955* is carved out of the Ordinance

²⁸ *The Milk and Milk Products (Guernsey) Law, 1955*

²⁹ States of Guernsey, Policy Council, (2010) *Dairy Industry Review*

³⁰ States of Guernsey Policy Council (2010) *Dairy Industry Review*, p53

³¹ *Ibid*

In 2007 [there was] a serious mistake which allowed a Single Gate price for milk sold from the Dairy to distributors. This allows distributors who supply 'shops only' to make an over-remunerated return due to their low costs compared with a poor return experienced by 'doorstep only' distributors with the high cost of home delivery. Furthermore the complexities of Guernsey milk and milk product distribution cause difficulties for the ultimate seller, the shops, which have no direct contact with the producer and the Dairy.

Price of milk - comparisons

Both Jersey and Guernsey Dairies claim milk produced on the islands is a premium product, which cannot be directly compared to other types of milk. For example, Jersey Dairy says that Jersey milk delivers 20% more calcium and 18% more protein than standard milk. It may well be the case that Jersey and Guernsey milk is superior to the standard milk sold in UK supermarkets and even with a wider choice, Jersey and Guernsey consumers would decide to pay a premium for superior milk. Anecdotally, it has been shared with CICRA that during 2013, when Guernsey retailers had to import milk due to a machinery malfunction at the dairy, there was a surplus of the imported milk once the dairy was operational again, which would suggest support for this proposition.

Currently, however, consumers on the islands do not have a choice and must pay that premium, which is between 40% and 60%:

- Jersey price for 1 litre of milk is 40% more expensive than the UK average for standard milk;
- Guernsey price for 1 litre of milk is 45% more expensive than the UK average for standard milk;
- Jersey price for 1 litre of milk is 50% more expensive than the cheapest of UK supermarkets; and
- Guernsey price for 1 litre of milk is 60% more expensive than the cheapest of UK supermarkets.

We estimate, given the price differences above, and the volumes of milk supplied by Jersey and Guernsey Dairies in 2012/13, that the volume of milk supplied on each island costs consumers about £2 million more per island than if those volumes had been supplied at the UK average price for standard milk. This is a very simple indication of the cost to the consumer – milk is heavy to transport, and perishes quickly, and the import costs may be higher than for some other goods, so that imported milk may be more expensive than the UK average. Importantly, the calculation also does not allow for any differences in the quality of the product supplied.

Set against that, however, is the general limitation on pack sizes in Jersey and Guernsey. In the UK, milk is sold in cartons of up to six pints, with the larger packs being increasingly cheaper per litre than smaller packs. For example, a six pint pack of milk at a UK Asda store in December 2013, worked out at 43.4p per litre (whereas the average UK price used in the comparisons above was 77 pence) compared to a litre of milk in both Jersey and Guernsey being over £1.

Milk - conclusions

As mentioned earlier, we appreciate that the support of the dairy industries in both Jersey and Guernsey raises important social and cultural issues, not least the strong and historic identity of the islands as producers of premium dairy products.

While many consumers in Jersey and Guernsey value local milk, choice is restricted and consumers are left with no choice but to buy the premium local product. Consumers in each island pay about £2 million more per year than would be the case if they bought milk at the average UK price, as at the end of 2013. We observe that the Jersey and Guernsey governments are both currently considering reforms to the way the dairy industries in the respective islands are organized and supported. The States of Jersey is currently considering reforms to the structure of control and regulation of the Jersey Dairy industry, while later this year, the Commerce & Employment Department in Guernsey is due to present to the States a report containing the Department's vision for the long-term future of the dairy industry in Guernsey and any recommendations for reform.

4. SHOPPING IN SUPERMARKETS

Price is an important driver for consumers choosing a supplier of goods and services, but not the only factor in deciding where to shop for groceries. Consumers may make their choices because of quality, the range of choices offered by a particular supplier and other facilities that they find convenient, such as location, additional in-store services or the availability of car parking.

We asked Island Analysis to carry out a survey, between May and June 2013, to explore how Jersey and Guernsey households shop for groceries – 1240 completed responses were received. The full survey is published alongside this report and is available on the CICRA website. Some of the headline findings from the survey were:

- consumers in both islands commented about the advantages that the presence of Tesco or Asda, or a cheaper store such as Aldi or Lidl, would bring in terms of lower prices;
- just over half of Jersey respondents, and just under half of Guernsey respondents, would shop for groceries on line if it were possible to do so;
- the main driver for choice of supermarket is price;
- the overwhelming majority of respondents in both Islands were satisfied with the current opening times of supermarkets;
- most households take advantage of special offers in supermarkets but one in three ‘did not find it easy’ or found it ‘not at all easy’ to understand special offers;
- consumers with experience of grocery shopping in either Jersey or Guernsey and the UK, thought that grocery prices were more expensive than the UK - around 90% of people said they thought shopping for groceries in Jersey or Guernsey was more expensive than the UK; and
- generally, consumers were satisfied with the quality and freshness of produce - about 80% of people were satisfied or very satisfied with both the quality and freshness of island-generated and imported produce, although, 20% thought fresh produce available in the UK was better.

The level of prices in Jersey and Guernsey supermarkets was dealt with in the previous chapter. The next chapter deals with the display of prices and consumer confusion around special offers. Chapter 7 deals with the restrictions on larger stores opening on a Sunday. This chapter deals with two other aspects of consumer choice – additional facilities in-store and online shopping.

4.1. Services alongside grocery shopping

Although, Jersey and Guernsey supermarkets are not significantly smaller than the average UK supermarket, the UK has a very wide range of store sizes, from small urban “express”

stores to very large superstores. Tesco, for example, has 169 stores³² that are larger than 5500m². Waitrose stores³³ in the UK vary from 650m² to 5200m².

The additional facilities in some of the larger UK stores – particularly in the “big four” (Tesco, Asda, Sainsbury’s and Morrisons) are extensive. For example, in addition to grocery shopping, Tesco’s in-store facilities (although not in every store) include:

- Scan as you shop
- Opticians
- Phone shop
- Travel money
- Pharmacy
- Direct ordering
- In store bank
- Hair and beauty salons
- Post offices
- Hand car washes
- Kindle stores
- Ipad store
- In store wi-fi
- Tesco tech support

Box 4.1 Services available at UK supermarkets

The Watford branch of Tesco is currently trialing a concept where the store attempts to replicate a high street, with independent retailers operating alongside Tesco, a Giraffe restaurant, and gym classes, cookery lessons, and community spaces for use free of charge.

Sainsbury’s advertise its in-store services as including pharmacies, café, party platters (made to order party food), lunchbox and takeaway counters and mobile scan and go. In 2012, in four stores, Sainsbury’s launched its Mobile Scan & Go app, which allows shoppers to scan product barcodes using their mobile phones and then pay at a till.

In-store facilities at the UK supermarkets which also operate in Jersey and Guernsey are more limited. The very largest M&S store offers *leave it to us* food ordering (special occasion food for collection at store), flower ordering, cash machines, café, hot food to go, M&S bank and a Bureau de Change. This range of services would not, however, be available at most M&S stores.

³² Tesco preliminary results, 2013

³³ Waitrose website, the history of Waitrose

The largest Waitrose store, Canary Wharf, offers accompanied shopping, Waitrose entertaining (party food made to order), delivery services, quick check, wine chilling, food to go, a wine bar, an espresso bar, steak and oyster bar and a café. In a similar way to M&S, this range of services would not be available at most Waitrose supermarkets.

A few of the largest supermarkets in Jersey and Guernsey offer a café and some have a cash machine, pharmacy, fishmonger and/or butcher and it is not unusual to find a post office located inside a supermarket.

The majority of the Co-operative stores in both islands offer a quick self-scan service and many have a Bureau de Change. There is also a dry cleaning pick up service at the two Grande Marche stores in Jersey.

The five Waitrose stores in the Channel Islands offer a check and scan as you shop service, and some of the stores offer one or all of the following: a café, delivery services, glass and fish kettle loans and a wine chiller.

M&S Guernsey offers food to order, lunch to go³⁴, personalised cakes and wedding cakes at all their stores; and ‘shop at lunch, collect at tea’ and collect by car at the St Peter Port store. At all its groceries stores, M&S Jersey offers wedding and personalised cake ordering, hampers and food to order and at the King Street store, it offers collect by car.

Overall, supermarkets in Jersey and Guernsey offer fewer in-store services than supermarkets in the UK. This is likely to be because of a number of factors including: the absence of the very large stores seen in the UK, which is to be expected due to the geography of the islands, and the size of the stores and the location of the stores in proximity to other services - stores in the Channel Islands are less “out of town” than some UK equivalents. It is also likely to be due to the more limited range of suppliers than in the UK with overall a less diverse offering.

4.2. Online shopping

One key difference between shopping for groceries in Jersey and Guernsey, and the UK, is the lack of availability of online shopping. Although online grocery shopping in the UK is still small, compared to in-store shopping, with just 3.82% of total grocery sales estimated to have been online in 2013³⁵, a dramatic increase is forecast³⁶.

Tesco, Sainsbury, Waitrose, Asda and Morrisons and, to a more limited extent, Iceland offer online shopping, delivered to the customer’s home.

There are reports of the shift to online shopping changing the distribution networks of the retailers, with some retailers choosing to fill orders by way of staff picking items from local stores, but Tesco, Asda and Waitrose³⁷ operate some so-called ‘dark stores’ which only fulfil online orders and are not open to the general public. Some of the advantages of dark stores are that they are more efficient, cheaper, larger and can stock a greater range of products than normal stores. Moreover, they often secure planning permission more easily than normal

³⁴ An online corporate food ordering service with the facility to order food and wine delivered direct to your door

³⁵ <http://www.igd.com/our-expertise/Retail/retail-outlook/3371/UK-Grocery-Retailing/>

³⁶ Ibid

³⁷ *Shining a light on dark stores*, IDG, December 2013

stores as they are not associated with the traffic congestion that stores may create and they can be located in areas where property is cheaper e.g. industrial estates.

Tesco recently became the second supermarket to offer a same day delivery with a trial in Nottinghamshire. If customers order before noon, groceries are delivered by 6pm.

In contrast to the UK, no supermarket in Jersey or Guernsey offers online shopping – retailers told us that start-up costs and the maintenance of the database for such a service would be prohibitive, relative to the size of the islands’ populations, and all the supermarkets told us they have no plans to introduce this service in the next twelve months.

Although, the supermarkets do not offer online groceries shopping in Jersey or Guernsey, Valley Foods, Lucas Brothers and Mercury³⁸ in Jersey offer online groceries shopping and home delivery – albeit with various restrictions on delivery days and times and minimum spend – and several respondents who provided qualitative responses to the online survey told us they use Valley Foods and/or Mercury, often for a main shop.

Some retailers in both islands offer a branch-based delivery service from selected stores, but the customer is required to do their shopping in-store. Some retailers offer an agreed time for delivery, others do not allow customers to book a delivery in advance and so customers have to wait until they are in-store³⁹ to establish if a slot is available, which is updated as the day progresses, and delivery slots fill up. Some customers find this inconvenient as we heard in our survey:

- “I would like to be able to book my home delivery in advance –i.e. before I get all the way to Grand Marche to find there are no more slots available”.

There seems to be some demand for online grocery shopping from customers in Jersey and Guernsey – as shown in the results from our consumer survey in figure 4.1. 53% of respondents in Jersey said they were very likely or likely to use an online service to shop for groceries and another 16% saying they would consider doing so. The numbers in Guernsey were only slightly lower, with 40% saying they would be likely or very likely to use an online service, with another 17% saying they would consider doing so.

We also heard from consumers we contacted via the survey that some are shopping online for non-perishable groceries. For example, some of the comments we heard were:

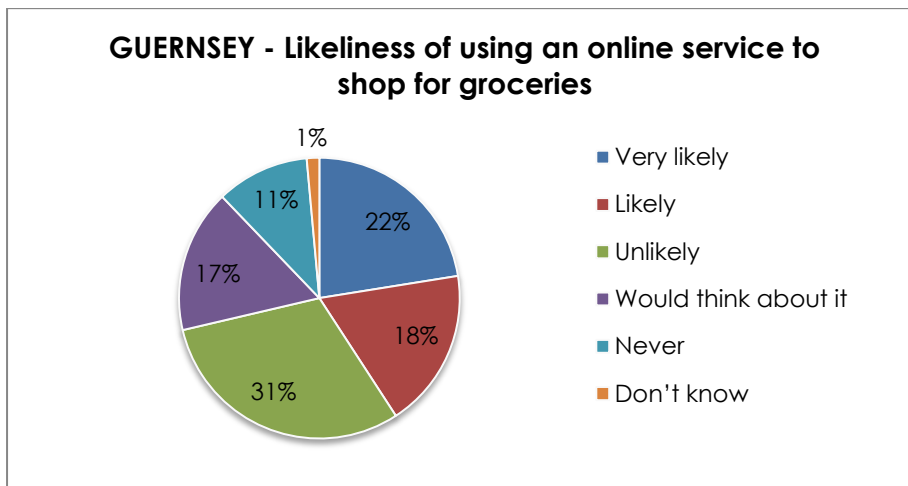
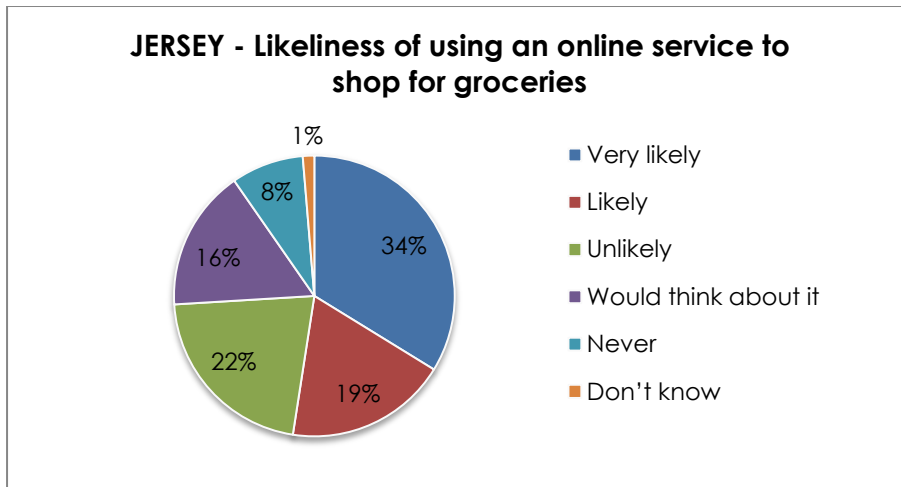
- “Why can Waitrose price Felix cat food at £5.17 a box when I can have it delivered to my door at around £2.85 from Amazon?”
- “In the main I will buy whatever I can that works out cheaper from Amazon. Excellent service and value.”
- “I also shop with amazon because of price.”
- “The very high prices for shop goods in general has forced me to buy everything I can from the rather amazing Amazon for the past few years, including non-perishable

³⁸ www.valleyfoods.com, www.mercurydelliver.com and www.lucasbrojjersey.com

³⁹ Available at St Helier in Jersey and St Martin in Guernsey

groceries. With free postage and VAT removed it's much cheaper, and I even buy bulky items like loo paper and mineral water from there.”

Figure 4.1 Results from consumer survey – likely to use online grocery shopping service



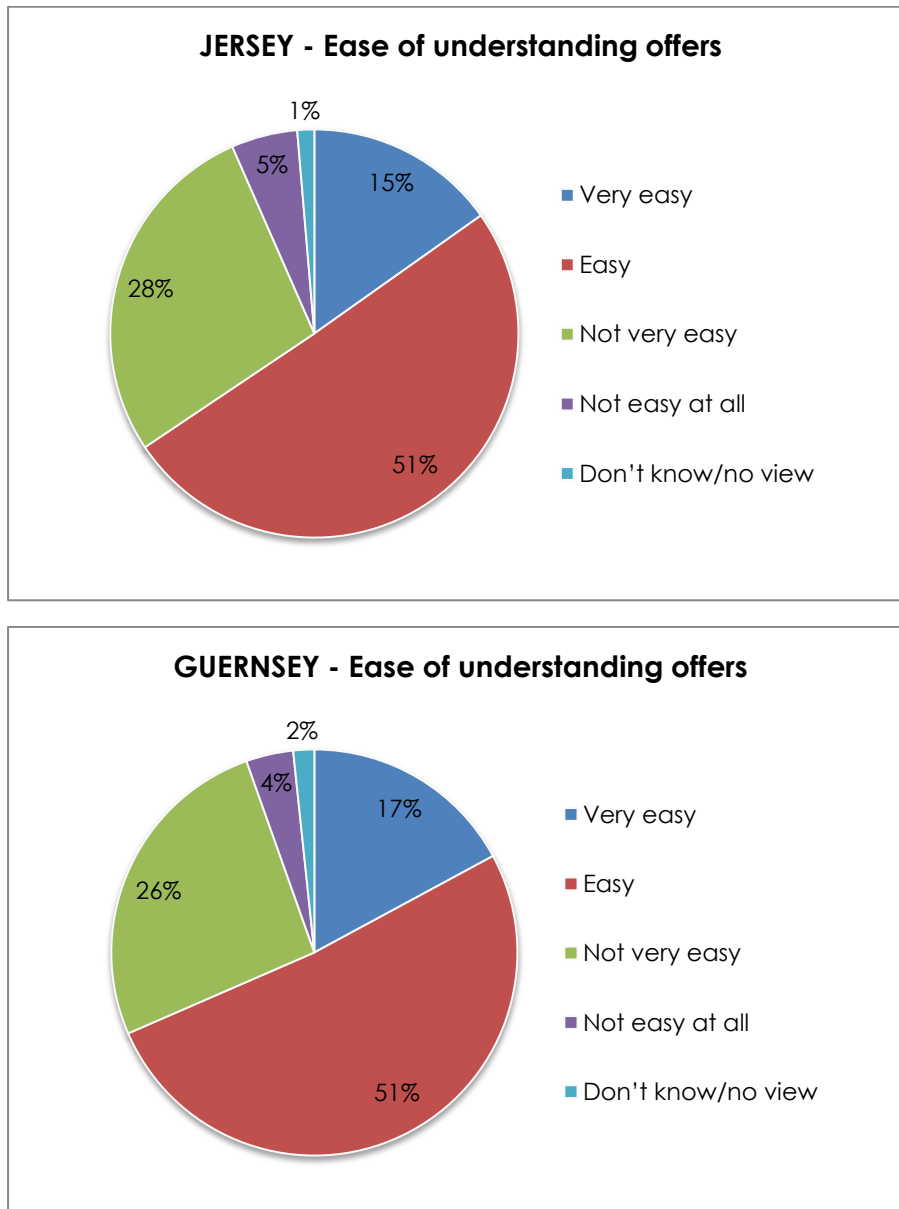
Jersey Post also tells us that it has seen a very substantial increase in the number of non-perishable products coming into Jersey via Amazon, namely nappies, toilets rolls, coffee, and dog food.

We do not disagree that the start-up costs for a supermarket to offer online shopping in Jersey and Guernsey may be substantial. However, given the apparent customer demand, the evidence that consumers are seeking online grocery shopping for non-perishable goods from elsewhere, and that suppliers such as Valley Foods, Lucas Brothers and Mercury in Jersey are offering online grocery shopping services, it seems to us that the absence of such a service offered by the supermarkets is more likely to be a consequence of the limited range of supermarkets in Jersey and Guernsey rather than the start-up costs for such a service. In this context, we note that Tesco in the Isle of Man offers an online shopping service with home delivery.

5. DISPLAY OF PRICES IN SUPERMARKETS

Consumers who can shop with confidence and make informed choices between suppliers and products drive competition and underpin efficient markets. A key part of maintaining consumer confidence is ensuring that consumers have clearly understood rights when they buy goods and services. One important finding from our consumer survey was that around a third of consumers did not find offers in supermarkets easy to understand, as shown in figure 5.1.

Figure 5.1 Results from consumer survey



Shopping for groceries is different to many other purchasing decisions that consumers make. Consumers are often buying many items, all at different prices, prices can vary by weight and there are often multi-buy offers or promotional discounting, which have the potential to confuse consumers. We saw ourselves, during our “real life shop” that it was often difficult to identify the cheapest option and compare across products, particularly when some products

were on multi-buy promotions. Sometimes, but not always, unit prices (e.g. £ per kg, or £ per litre) were available for all products, including those on promotion, which helped considerably in comparing prices. In Jersey and Guernsey, there is often an added factor which may further complicate the display of prices, where a UK price is marked on the package, but the actual price may be different – because of GST in Jersey, or because the retailer has decided to charge a different price.

A 2010 study⁴⁰ by the Office of Fair Trading (**OFT**) found that the following pricing practices were potentially the most harmful in terms of consumer confusion:

- drip pricing (where the price increases through the sales process);
- time limited offers;
- baiting sales and complex offers (a bait offer is a false offer designed to engage a consumer in a sales process);
- reference pricing (i.e. “was £x but is now £y”); and
- volume offers.

Of the above list, reference pricing and volume offers are commonly seen in supermarkets.

There are two separate, but very related, issues when it comes to clear pricing for groceries. The first is unit prices – whether retailers display a price per relevant unit. Clear unit pricing helps consumers easily compare value across different sizes of products. The second issue is the way promotions are displayed; for example, the truthfulness - from a consumer’s point of view - of reference pricing e.g. ‘was £x, but now £y’, or the clarity of volume offers e.g. ‘buy 2 for the price of 1’ or ‘buy 3 for £z’, both in terms of the value of such offers compared to other products but also whether the original price for one item is unchanged from before the offer period.

5.1. Display of prices – the rules

UK

In the UK, the *Price Marking Order 2004* requires that prices for products (not services) must be ‘unambiguous, easily identifiable and clearly legible’ but it is not prescriptive about the way in which those requirements are met. It requires the price to be shown in sterling, and the unit price to be displayed. Small shops that have a retail area of less than 280m² do not need to display a unit price.

The Consumer Protection from Unfair Trading Regulations (CPRs) implement the EU’s *Unfair Commercial Practices Directive*. In its Advertising of Prices market study, the OFT explained that to assess a display (or advertisement) of price for compliance with the CPRs, its starting point is whether the practice is prohibited outright by the CPR, irrespective of any effects on consumers' decisions. This means the CPRs ban some practices. An example of a banned practice is “bait and switch” where a consumer is lured by a low price but the trader has little intention of selling at that price (because stock is unreasonably limited for example) and the trader then “sells up” another, higher priced product.

⁴⁰ Office of Fair Trading, *Advertising of Prices*, December 2013

The OFT goes on to explain that if a pricing practice under investigation is not prohibited outright by the CPRs, it would then consider whether the practice is misleading. But the existence of a misleading practice alone is not sufficient unless it causes, or is likely to cause the average consumer to take a different decision, i.e. it must be harmful in practice.

The UK's Department for Business, Innovation and Skills (**BIS**) Pricing Practices Guide⁴¹ has no basis in legislation but is influential with traders and forms a useful reference for enforcers of legislation, and traders, about expectations of standards. The guide sets out good practice on matters such as making fair price comparisons, fair references to use in reference pricing and when offering products at sale prices.

Jersey

In Jersey, legislation⁴² requires that consumers should not have to ask in order to ascertain the price of a product; the price displayed should be clearly legible and unambiguous, and in most instances should be inclusive of GST. It requires that prices must be in sterling, and where the goods are sold from bulk either the selling price per individual item of the goods or the selling price per stated unit of measurement must be displayed. Otherwise, the price must be the selling price of the goods per unit of sale.

There are some exceptions to the GST inclusive rule, notably food which is price marked before being imported into Jersey, and newspapers, periodicals and books. In the case of these exceptions, the *Price Indicators (Jersey) Regulations 2008* allow the price to be displayed showing a percentage uplift on the pack price – e.g. a price may be displayed in terms of a percentage added to the price displayed on the pack.

In November 2010, the Minister issued a Green Paper⁴³ to seek views on the desirability of introducing a new consumer protection law incorporating a general duty not to trade unfairly. The proposals were closely based on the EU's *Unfair Commercial Practices Directive* (implemented as the CPRs in the UK). We understand that drafting time may be made available in 2014 to implement these proposals.

Guernsey

In Guernsey, there is no legislation in place governing price marking, including no statutory requirement for prices to be displayed next to a product. The Guernsey Trading Standards Service will respond to individual complaints, although without statutory powers, staff can only encourage all retailers, including grocery retailers, to display prices clearly.

Consumer protection enabling legislation⁴⁴ was put in place on 7th February 2011 and we understand that during 2014, the Commerce & Employment Department will consider the matter of consumer protection, including price display⁴⁵, and whether to introduce legislation or seek other policy action.

⁴¹ BIS (2008) *Guidance for traders on good practice in giving information about prices*

⁴² *Price Indicators (Jersey) Regulations 2008*

⁴³ Economic Development Department, *Green Paper: Consumer protection proposed new law*, November 2010

⁴⁴ *The Trading Standards (Enabling Provisions) (Guernsey) Law, 2009*

⁴⁵ Commerce & Employment, *Business Plan 2014*, pg 12,
<http://www.gov.gg/CHttpHandler.ashx?id=85994&p=0>

5.2. Display of prices – in practice

Notwithstanding the legislation that is in place in the UK, there are demands for clearer pricing by supermarkets. In September 2012, a Which? survey found three in four people in the UK feel that supermarkets are trying to mislead them on prices. In response, Which? launched the Price it Right campaign⁴⁶. Which? also carried out spot checks at the top ten supermarkets and found none met best practice criteria for size and legibility of unit pricing, with labels often too small to read. Aldi, The Co-operative, Morrisons and Waitrose all ‘signed up’ to the Price it Right campaign, and committed to improving price labels in their stores.

In November 2013, Which? announced that it was still finding “dodgy” supermarket offers such as:

- Ocado sold a 12 pack of Beck’s Bier as ‘was £12.19 now £9’ for almost a month, but had only sold it at £12.19 for three days, 18 days before the offer started;
- Sainsbury’s sold Carex Aloe Vera & Eucalyptus Moisturising Antibacterial Handwash (250ml) at a higher price of £1.80 for seven days, and then on offer at ‘was £1.80 now 90p’ for 84 days; and
- Asda increased the regular price of Uncle Ben’s rice from £1 to £1.58 as it went onto a ‘2 for £3’ multi-buy, then returned it to £1 when the multi-buy ended – making it more expensive when it was on offer than when it was not.

In early December 2013, BIS announced⁴⁷ that, following a meeting with the Consumer Minister in May 2013, major supermarkets had now agreed to make pricing clearer and simpler. BIS announced that:

- all 10 supermarkets are committed to displaying a consistent unit price across similar products. For example, Sainsbury’s has changed 30,000 shelf edge labels over the last 18 months to make things clearer for shoppers; Morrisons has changed 2,000 shelf edge labels and Asda and M&S are reviewing their practices;
- 6 out of the 10 supermarkets include the unit price on promotions for multi-buys of the same item. For example, Iceland displays a normal and an offer price on promotion labels, Lidl will follow suit during 2014 and Aldi displays the unit price for reduced products; and
- all 10 supermarkets are improving the visibility of the labels on supermarket shelves. For example, both Tesco and Waitrose are increasing the font size of their labels making them easier to see while the Co-operative is also stripping out unnecessary information for consumers such as barcodes.

The way prices are displayed in Jersey supermarkets vary:

⁴⁶ www.which.co.uk

⁴⁷ BIS, *Progress on clearer pricing in supermarkets*, 4 December 2013

- in one supermarket we observed the price on the shelf edge included GST and was different, and higher, than the price displayed as part of the packaging on UK products (where that product displayed a UK price);
- in another, some shop banners displayed the UK price, but had a label saying the correct price was marked on the shelf edge, while other banners displayed the full price including GST (which was also marked on the shelf edge); and
- generally, we observed, that where a product is subject to UK VAT and the packaging was marked with that UK price, the UK VAT inclusive price was shown on the shelf edge.

In Guernsey supermarkets, in general:

- prices of products are marked on the shelf;
- where a product is subject to UK VAT and the packaging was marked with that UK price, the UK VAT inclusive price was shown on the shelf edge; and
- one retailer price marks each individual item.

5.3 Conclusions

In Jersey and Guernsey, there is no legislation that governs promotion pricing practices - for example, that the sale period at the new lower sale price cannot be longer than the period in which the old higher price was available. There is also no legislation in the UK which specifies such matters in detail – the relevant legislation is the CPRs which is, in the main, principle-based legislation and does not set out detailed rules.

In previous market studies – for example, road fuels⁴⁸ and heating oil⁴⁹ – we have pointed out that clear, upfront display of prices is beneficial to consumers and competition. Misleading or confusing prices may lead to consumers spending more than they need to, buying a product which is not the best for them or wasting time.

Given the importance that we attach to the clear display of prices – for the direct benefit to consumers, and for the benefit of competition which in turn benefits consumers – we hold the view that consumer protection legislation, similar to the CPRs should be put in place.

We believe that new consumer protection legislation in both Jersey and Guernsey could be of benefit to consumers, competition and efficient markets by helping to improve the display of supermarket price promotions which some consumers find confusing. It appears that drafting time will indeed be made available in 2014 for the implementation of a version of the Unfair Commercial Practices Directive in Jersey. We understand that in Guernsey, during 2014, the Board of Commerce & Employment will consider the matter of consumer protection, including price display⁵⁰, which we welcome.

In the meantime, in response to consumers’ concerns and noting the considerable progress apparently made in the UK by Which? working on a voluntary basis with grocery retailers,

⁴⁸ JCRA (2011) *Review of the Jersey market for road fuels*

⁴⁹ JCRA (2012) *Review of the supply of heating oil in Jersey*

⁵⁰ Commerce & Employment, *Business Plan 2014*, pg 12

we have discussed with the supermarkets in Jersey and Guernsey whether they would be willing to sign up to a voluntary code to follow best practice in the display of prices and price promotions. All the supermarkets responded positively, although subject to the detail of any code being agreed. CICRA has also canvassed opinion from various stakeholder groups who have a potential interest in the subject matter of a code. The Jersey Consumer Council and the Trading Standards Service in Jersey have each expressed support in principle for a code, although noting that further discussions are required on such matters as the scope of the code and the manner in which compliance by retailers would be sought.

It is proposed that the code would apply, at a minimum, to the stores that were the subject of the study (i.e. supermarkets), but we would encourage those retailers to apply the code in their stores that were not subject to the study i.e. Co-op enroutes, Checkers Xpress and Island Shopper. In general, our view is that the code should seek: simple, consistent unit pricing; clear, legible display of prices i.e. omitting unnecessary information and using a clear font; and making special offers and promotions simpler to understand e.g. displaying the unit price on promotions for multi-buys of the same item and ensuring that internal reference pricing and pre-printed value claims on packs are not misleading. We will continue our discussions with retailers and stakeholders over the next few months, with a view to creating a code of best practice on grocery prices in Jersey and Guernsey.

6. BARRIERS TO ENTRY AND PLANNING

New suppliers entering a sector, or the credible threat of new suppliers entering a sector, usually brings benefits to consumers. New entry may increase competition by giving consumers a greater choice of products, quality, price and services – often driving down the prices, or increasing the quality, offered by existing suppliers.

New entrants to a sector almost always face barriers of one kind or another. Typical barriers to entry include:

- the advantage that incumbents have because they have already invested – that is, their investment costs are ‘sunk’;
- a scarcity of resources necessary to enter the market, for example, appropriately skilled labour or suitable sites;
- barriers to securing supply or distribution, where capacity is already contracted to incumbents;
- legislation and regulations that the entrant needs to understand and comply with;
- a lack of scale economies in a market compared to incumbents; and
- barriers to securing customers through switching, for example, customer loyalty to existing brands.

6.1. Barriers to entry in the Jersey and Guernsey supermarket sector

Jersey and Guernsey supermarkets told us about the barriers to expansion (and entry) that they have come across. These barriers fall into three broad categories.

First, the most often mentioned barrier was the scarcity and high cost of acquiring and developing suitable property on either island and the absence of available land of an adequate size. Supermarkets told us that a key part of this barrier was the challenges and costs associated with the planning systems in both islands.

Second, supermarkets said they had difficulties in recruiting and retaining skilled staff, even staff with basic skills. One supermarket said it had greatest difficulty recruiting staff in Guernsey, another said that the scarcity of labour itself was a barrier.

The third category of barrier mentioned was the costs of operating in the separate and small jurisdictions of Jersey and Guernsey, compared to the UK. Part of this was the additional cost of operating in small island markets that, for example, make supply chains more challenging and shorten the shelf life of some products. Another aspect was that supermarket operators needed to adjust their operating models to respond to a different political context and the regulatory requirements in each of Jersey and Guernsey. This included mention of the Income Tax Installment System, Social Security, Right to Work, licence applications and employment laws. Sunday trading restrictions were also mentioned as a barrier.

Given the nature of the barriers to entry that supermarkets told us about and including scale economies and securing supply, we would expect that the most likely new entry would be from supermarkets with existing scale and supply in the UK.

Moreover, given the barriers around the availability of property, and barriers specific in nature to Jersey and Guernsey, we would expect that the preferred entry strategy of a new supplier would be a partnership with, or acquisition of, existing retailers who already had sites and were familiar with local conditions and regulations.

This is indeed what we have seen over the last few years. In May 2008, Iceland entered into a franchise agreement with Sandpiper in Jersey and more recently, in August 2010, expanded into Guernsey. The new sites Sandpiper has acquired to operate Iceland stores have previously been retail sites; for example, St Peter, Jersey. Waitrose entered the Jersey and Guernsey markets in 2010⁵¹ by acquiring stores from Sandpiper, and very recently, in December 2013, Alliance in Guernsey announced a new partnership with Tesco i.e. “Tesco at Alliance”.

6.2. Planning systems and barriers to entry

The challenges created by the planning systems in both Jersey and Guernsey were raised with us by some of the supermarkets. There is also some anecdotal evidence, from recent planning case studies, that the planning systems may be a significant barrier to supermarket developments.

Box 6.1 Examples from recent planning case studies

Leale’s Yard, the Bridge, Guernsey is a multi-retail development, including an enlarged Co-operative store. The planning authorities required a 20% cut in the proposed size of the supermarket store from the initial plan, before planning permission was granted in 2011. The Leale’s Yard planning permission has now lapsed, and the very recent Retail Strategy⁵² for Guernsey expresses the view that a retail development along the lines permitted in 2011 will not now take place, as a result of new economic realities.

The Ann Street Brewery site, Jersey, to the immediate north-east of St Helier’s commercial district, is owned by a company that is considering submitting plans that would include grocery retailing space, but the Planning Department has insisted on a Retail Impact Study, a cost which must be borne by the prospective applicants, regardless of whether the application is successful or not.

Planning systems must balance multiple objectives and so to some extent, by their nature, they represent a barrier because encouraging new suppliers cannot be the only consideration. But precisely how these systems balance different objectives can be very important in determining which planning applications are accepted or rejected, and so determine whether or not various sectors see the benefit of new entry.

The UK’s national planning framework

The UK National Planning Policy Framework (NPPF) 2012 sets out a “town centre first” objective, including an approach based on sequential and impact tests – see box 6.2. But the UK’s framework also includes the following:

- an objective to promote competitive town centres that provide customer choice and a diverse retail offer;
- an objective to proactively drive and support sustainable economic development;

⁵¹ JCRA Decision, M601 (2010) *Sandpiper Topco Limited-Waitrose (Jersey) Limited*

⁵² *A retail strategy for Guernsey - Proposals to enhance Guernsey’s retail sector, 2013*

- plans should take account of market signals, such as land prices; and
- it is important that needs for retail, leisure, office and other main town centre uses are met in full and are not compromised by limited site availability. Local planning authorities should therefore undertake an assessment of the need to expand town centres to ensure a sufficient supply of suitable sites.

This means that the UK's framework has quite a clear and explicit focus on ensuring choice, competition and responding to market signals, to facilitate economic development.

Box 6.2 UK NPPF sequential and impact tests

Local planning authorities should apply a sequential test to planning applications for main town centre uses that are not in an existing centre and are not in accordance with an up-to-date Local Plan.

They should require applications for main town centre uses to be located in town centres, then in edge of centre locations and only if suitable sites are not available should out of centre sites be considered. When considering edge of centre and out of centre proposals, preference should be given to accessible sites that are well connected to the town centre.

When assessing applications for retail, leisure and office development outside of town centres, which are not in accordance with an up-to-date Local Plan, local planning authorities should require an impact assessment if the development is over a proportionate, locally set floor space threshold (if there is no locally set threshold, the default threshold is 2,500 sq. m). This should include assessment of:

- A) the impact of the proposal on existing, committed and planned public and private investment in a centre or centres in the catchment area of the proposal; and
- B) the impact of the proposal on town centre vitality and viability, including local consumer choice and trade in the town centre and wider area, up to five years from the time the application is made.

Jersey Island Plan

In the Jersey Island Plan 2011 (the **Jersey Plan**), the island follows a broadly similar approach to the UK's sequential and impact tests, with an effective impact test threshold for food retailing over 500m². The plan notes that the retail sector of the economy is important and that competition can bring benefits for consumers in terms of price, choice and quality, and for the wider economy in terms of increased productivity, growth and lower inflation.

The plan goes on to state, for food retailing, that there is an aim of ensuring that a rigorous sequential approach to the location of new food retail developments is followed, whilst not preventing the entry of a new supermarket operator or acting as an unnecessary or unintended barrier to competition. It stresses that the plan aims to ensure large food retailing supports and enhances the existing hierarchy and distribution of food retailing.

The Jersey Plan recognizes that retail capacity modelling is concerned simply with retail capacity and therefore does not address the benefits that competition can bring for consumers in terms of price, choice and quality and for the wider economy. It nevertheless concludes on the basis of a capacity study that:

- for Jersey as a whole there is no forecast quantitative need for additional food store floor space up to 2015; and
- if circumstances were to change over the life of the plan and the need for an additional large supermarket arose, there should be a presumption against any new major food retailing development outside St Helier town centre.

Our assessment is that, overall, the Jersey Plan has a less clear objective in terms of the promotion of beneficial competition than the UK NPPF. The Jersey Island Plan aims to ‘not prevent’, rather than promote, competition; and over and above the sequential approach, it specifies that any large food retailer should not be outside the St Helier town centre. Under the Jersey Plan, Sequential Testing is a significant requirement, but a Retail Impact Study does not seem to be specifically called for. Moreover, while we note that there is a presumption against developing retail space outside St Helier, the Ann Street Brewery site falls metres outside the area that is considered the St Helier town centre in the Jersey Plan and was previously an industrial site that has been empty for many years.

The Jersey Plan, in reaching its conclusions about the need for new large food retailing, places weight on a capacity study, with little apparent balancing against competition benefits – including considering the real life dynamic aspects of competition where new suppliers may increase capacity, but beneficial exit may also result over time.

Capacity studies, on their own, do not include the consideration of important factors such as the structure of the market, efficiency, productivity, consumer choice and prices. As an example of this, the same sales density figure could be delivered by multiple individual retailers or a single monopoly retailer, but they would be treated the same in a capacity study – but have very different outcomes in terms of delivering the benefits of competition between suppliers to the benefit of consumers.

Guernsey Strategic Land Use Plan and Urban Area Plan

The Guernsey Urban and Rural Area Development Plans (**Guernsey Development Plans**) are currently under review. The soon to be revised Urban Area Plan, 2002 notes that:

- retailing is dynamic and evolving, its requirements may change over time; and
- the public can often benefit from a widening choice of shopping facilities and increased competition.

The plan also notes that some retail developments, for example supermarkets, may not be easily accommodated in, or adjoining, the established centres.

Guernsey’s Strategic Land Use Plan (2011) states that the Guernsey Development Plans will make provision for new large retail development within town and The Bridge to meet modern demand and to enhance the vitality and viability of the main centres; and where there is demand for large retail development outside these centres, additional provision may be made - provided the vitality and viability of any commercial centre is not undermined.

Given the timing of the ongoing reviews, we can be less clear about the direction of Guernsey’s relevant planning approaches compared to Jersey. It appears that, while like Jersey, there is a recognition in Guernsey’s planning policies of the benefits to consumers from competition, it is not clear that promotion of beneficial competition is as clear an

objective as in the UK NPPF. It is, however, encouraging that Guernsey planning policy does appear to make explicit provision for areas where large retail expansion may take place.

Guernsey's retail strategy

A retail strategy for Guernsey - Proposals to enhance Guernsey's retail sector was published by the Guernsey Retail Strategy Group in December 2013. The Guernsey Strategic Land Use Plan says that this retail strategy should be taken into account in preparing future development plans. The strategy highlights the need for the Guernsey retail sector to adapt to challenges, including online competition, and develop and improve the key retail centres in town and St Sampson.

A key 'strategy proposal' is that retail areas within town – with differing characteristics - should have different planning rules applied to them. Areas should be classified according to a range of relevant criteria and not simply by proximity to the primary centre. Criteria such as footfall and rental rates should be considered, and areas with different classifications should merge into each other, rather than having fixed boundaries.

The Strategy Group considered that new developments in town up to 20,000 square feet could succeed, and that identifying areas that could be suitable for redevelopment should be a priority.

If such an approach were used in future Development Plans, to enable responsiveness to market signals and to build into the planning system appropriate flexibility, we believe this could help the grocery retail market develop to the benefit of consumers.

6.3. Conclusions and recommendations

There is little evidence from a comparison of the Channel Islands and UK sector statistics (see chapter 2) that entry barriers, including the planning systems, have led to:

- overall under-provision of grocery retail space in Jersey and Guernsey compared to the UK; or
- substantially smaller average grocery retail stores (although Jersey grocery stores are on average 25% smaller than in Guernsey).

While overall capacity may not be an issue, this study has found that the entry of a supermarket that typically offers lower prices, or a lower priced range of products, would be of benefit to consumers in both islands, but particularly Jersey which has fewer supermarket brands than Guernsey. The absence of the availability of cheaper groceries, limits choice to the detriment of those consumers who would choose to shop for lower priced groceries if they were available.

We have heard from both Jersey and Guernsey grocery retailers and developers that the planning systems represent a significant barrier to entry and expansion and our analysis set out in this chapter shows that within the Jersey and Guernsey planning frameworks, the objective to promote beneficial competition is less clear than it is in the UK national planning framework.

Of course, planning systems are, quite rightly, not designed to manipulate the entry of certain brands of retailers or favour certain retailers over others. However, for those consumers on

the tightest budgets in Jersey and Guernsey, or looking for the cheapest prices, the entry of a discount supermarket would be beneficial. It is acknowledged that planning systems can only affect land use, and have no direct influence over the identity of the occupier of the land, and so approval of new grocery retailing space would not of itself necessarily guarantee that the occupier would be a new entrant or that the grant of approval would improve competition. Nevertheless, there could be benefit in both the Jersey and Guernsey planning systems placing more weight on the advantages from increased grocery retailing choice and competition. This recommendation is particularly pertinent as it relates to Jersey because of the existence in Guernsey of more retail floor space and more supermarket brands for consumers to choose from.

7. SUNDAY TRADING

There are restrictions in place in both Jersey and Guernsey which regulate the opening hours of some stores on Sundays and there are particular restrictions on larger stores opening on a Sunday.

The arguments for and against Sunday trading often include discussion of social, cultural and religious matters, as well as economic arguments about productivity, and arguments about convenience to shoppers. To comment on all of the arguments that arise around Sunday trading is outside the scope of this report, as is reaching a definitive view on the costs and benefits of Sunday trading. Nevertheless, during this study, restrictions on Sunday trading were raised with us by both grocery retailers and consumers. Therefore, we have chosen to report the views that were shared, and set out some of the arguments for and against Sunday trading; but we limit our observations to those matters that may have a direct impact on the customers of grocery retailers.

7.1. Sunday Trading rules

England and Wales

Restrictions on shop opening hours on weekday and Saturdays were completely removed for all shops, and Sunday trading was deregulated in part, in 1994. Current legislation allows shops to trade on a Sunday but restricts most large (over 280m²) shops to a continuous six hours' trading between 10am and 6pm. A few types of large shops are exempt, including farm shops, cycle supply shops, shops at airports, railway stations and at motorway service stations.

In addition to these restrictions, the legislation⁵³ regulating Sunday trading in England and Wales prohibits large shops from opening on Easter Sunday. Large shops are also prevented from opening on Christmas Day⁵⁴.

The Sunday trading restrictions on large stores were suspended⁵⁵ for eight consecutive Sundays, beginning on 22 July 2012 and ending on 9 September 2012, to allow all shops to open for the period of the 2012 London Olympic Games.

Small shops (not over 280m²) are not covered by the restrictions and can open at any time on a Sunday. Scotland has never had any general legislation controlling Sunday trading.

Jersey

Legislation in Jersey⁵⁶ prevents shops from opening on any Sunday, Good Friday, Christmas Day, Boxing Day or Liberation Day, unless they are exempt or are granted a permit. Permits may be general, single or blanket. The Connétable approves applications and permits for stores in each parish.

A general permit allows a shop to open every Sunday, on Good Friday, Liberation Day and Boxing Day. A general permit cannot be granted to a shop with a retail sales area larger than

⁵³ *Sunday Trading Act 1994*

⁵⁴ *The Christmas Day (Trading) Act 2004*

⁵⁵ *Sunday Trading (London Olympic Games And Paralympic Games) Act 2012*

⁵⁶ *Shops (Regulation of opening and deliveries) (Jersey) Law 2010*

700m². A single permit allows the opening of a shop on any date specified in the permit, but this may not be Christmas Day or Boxing Day. A blanket permit allows any shop to open on a special occasion - as specified in the permit.

Guidance⁵⁷ to Regulations⁵⁸, states that a single permit can specify more than one date and a shop may apply for more than one single permit in a year, but no shop may open for more than five days in any one year under one or more single permits. So by successfully applying for single permits, shops with over 700m² of retail space may open on up to five Sundays a year.

A 2012 Order⁵⁹ designated three or four Sundays in December (depending on which day Christmas Day falls on) as special occasions – which means a blanket permit can be issued for these days to allow shops to open. In 2013, 1, 8 15 and 22 December were designated as special occasions and all shops were permitted to open, although with some restrictions placed on opening hours for some large shops.

We understand that the Economic Development Department is currently considering amendments to the legislation and will shortly invite islanders to comment on the Minister's proposal that for a trial period of eighteen months, all shops (including supermarkets) which are currently prohibited from opening on a Sunday⁶⁰ be allowed to apply to trade on Sundays throughout the year.

Guernsey

The current legislation⁶¹ in Guernsey requires most traders wishing to open on a Sunday to obtain a licence, although some trading – such as door to door deliveries and sales of fish – is exempt. Traders must apply to the local parish for a licence. There are thirteen categories of licence; most relevant to this study is category B, small convenience grocery stores. Guidance⁶² states that a trader seeking a licence for a convenience grocery store must have a shop floor area not exceeding 400m². For grocery stores of all sizes there are no restrictions on opening hours on a public holiday and so in theory as long as it doesn't fall on a Sunday, the supermarkets over 4000m² could open on Liberation Day or Boxing Day for example.

In late 2012, Guernsey's States of Deliberation rejected a move to deregulate the island's Sunday trading laws. However, we understand that during 2014, the Commerce & Employment Department will commence work on a review of the local Sunday trading legislation⁶³ which is expected to encompass a period of public consultation.

⁵⁷ *Sunday trading in Jersey: Guidance notes for applicants for Sunday trading permits*

⁵⁸ *Shops (Regulation of Opening) (Jersey) Regulations 2011.*

⁵⁹ *The Shops (Regulation of Opening) (Special Occasions) (Jersey) Order 2012*

⁶⁰ Shops with a retail sales area of more than 700m²

⁶¹ States of Guernsey, *The Sunday Trading Ordinance, 2002,*

⁶² States of Guernsey, *The Sunday Trading Ordinance, 2002: Traders' notes for guidance*

⁶³ Commerce & Employment, *Business Plan 2014*, pg 12
<http://www.gov.gg/CHttpHandler.ashx?id=85994&p=0>

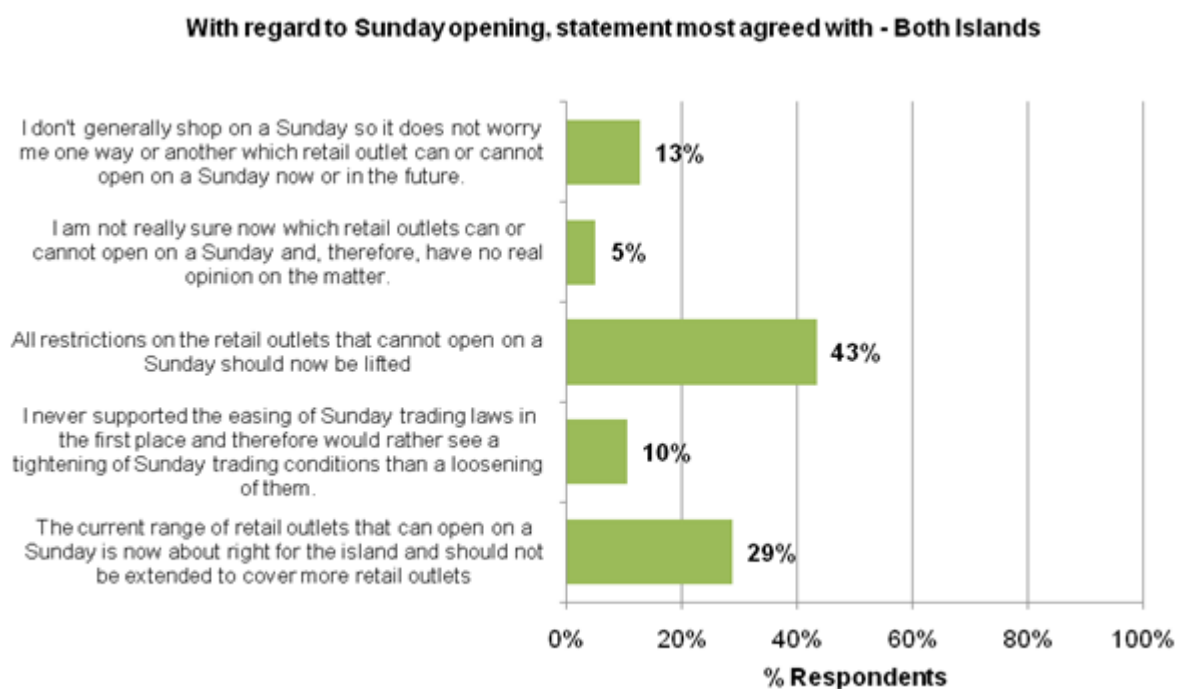
7.2. Views on Sunday Trading

Consumers

Although, we did not explicitly ask consumers about Sunday trading in our survey (see chapter 4 for details of our consumer survey), we did ask whether consumers were happy with the current opening hours of supermarkets. Only 11% percent of consumers in Jersey and 8% of consumers in Guernsey are dissatisfied, or very dissatisfied with the current opening hours of supermarkets. Many of these people said they supported 24 hour opening and Sunday opening. This evidence needs to be considered carefully – given the question that was posed, it is not necessarily a strong indication that most people are against the deregulation of Sunday trading.

Results from a November 2013 survey submitted to us by Waitrose, where the respondents were consumers from a third party's research panel, show 43% of people across both Jersey and Guernsey (the result was nearly equal on both islands) expressed support for the deregulation of Sunday trading.

Figure 7.1 Sunday Trading – consumer views – evidence submitted by Waitrose



The Jersey Consumer Council

The Jersey Consumer Council (JCC) has called for a two year trial relaxation of the Sunday trading rules⁶⁴. The JCC said that this would have the potential to boost employment and the local economy and also made the point that on-line purchases are threatening the viability of local retailers. In addition, the JCC said that a relaxation of the Sunday trading rules could

⁶⁴ The Jersey Consumer Council, *Jersey Issues*, December 2013

help tourism because weekend breaks in Jersey would be more attractive if shops were to open on Sundays.

The Strategy Group, Guernsey (Retail strategy for Guernsey)

We also note that the Strategy Group, from the recent retail strategy for Guernsey (see chapter 6), favoured some liberalisation of Sunday trading in the short term, with widespread liberalisation on certain Sundays, including in the run-up to Christmas and on days in the summer holiday season coinciding with the arrival of cruise liners. The Strategy Group also believed that in the longer term deregulation is likely to happen and supported Sunday opening being as simple as opening on a Saturday, with benefits for the shopper, shopkeeper and the economy.

Supermarkets

We asked the Jersey and Guernsey supermarkets whether, if legislation allowed, they would open on a Sunday. Of those who gave us a clear answer, two supermarket groups said they would open on a Sunday if allowed to do so, with one of these also saying that opening on a Sunday would reduce wastage.

One supermarket group said it would not open more stores, as it considers demand is finite and so costs would increase but there would not be any increase in sales (although we note that this group already opens the majority of its stores on a Sunday). Two supermarkets suggested that if Sunday trading rules were relaxed, they would expect their competitors to open and so would do likewise.

In the UK, in 1994, not all large retailers were in favour of deregulating Sunday trading, although many were, and not all large retailers are in favour of further deregulation now. Recently, Asda expressed the view that it “*is in favour of allowing big shops to open for longer than six hours on Sundays - extended hours have become more popular as time has moved on*”⁶⁵. But Tesco and Sainsbury’s have both said they are not in favour of further deregulation⁶⁶.

The Jersey Chamber of Commerce

In November 2013, the Jersey Chamber of Commerce published the findings of a survey of its members about Sunday trading. In announcing the results, The Chamber of Commerce said opening on a Sunday could “*cause more problems than it would solve*”.

In answer to the question: “*Do you think Sunday trading hours should be limited by law, for example specifying a maximum number of hours?*” 63.5% of respondents said yes.

Of the respondents who currently do not open on a Sunday (about 85% of respondents), 40% answered possibly or definitely in answer to the question “*If Sunday trading laws allowed, would your retail business open on Sundays?*”

⁶⁵*This is Money*, August 2012. Asda and other big retailers in talks with the Government over permanent easing of Sunday trading laws

⁶⁶ *Ibid*

Many questions in the survey were about expected numbers of customers on a Sunday, and increased costs and revenues. Many respondents expected to see more people visiting their stores and costs rising.

7.3. Costs and benefits of Sunday Trading

The arguments for relaxing Sunday trading rules include:

- productivity benefits from smoothing footfall;
- cost savings from reduced wastage;
- more convenience, and reduced congestion, for consumers; and
- more flexibility for those workers who want to work on Sundays.

The arguments against Sunday trading include:

- overall costs may increase, while demand is finite;
- relaxing Sunday trading for large stores may harm small shops, which may already be struggling; and
- workers need to be protected from pressure to work on a Sunday if they do not wish to do so.

Costs to retailers and consumer benefits

If Sunday trading rules were relaxed in Jersey and Guernsey, costs for some retailers would change. Different types of retailers would experience different changes. Costs may reduce if wastage reduced and if peaks in demand were smoothed out; for example, if a peak in Saturday shopping, requiring over-capacity to cope with that peak, were to be smoothed over Saturday and Sunday. However, there may be increased costs (staff costs for example) associated with keeping the store open another day.

In a competitive market, we could expect to see any costs savings ‘competed away’ to the benefit of consumers. Any increases in costs which competitive pressures prevent from passing on to consumers may also lead to some less efficient traders exiting the market and this may have an impact on the competitiveness of a sector.

Before the deregulation of Sunday trading in the UK, the Institute of Fiscal Studies (**IFS**) carried out an economic review⁶⁷. The IFS concluded that it was likely that Sunday trading would increase the costs of retailers, but at the expense of profitability rather than margins i.e. competitive pressures would keep prices down despite cost increases.

The study also concluded that retail revenue taken on a Sunday would likely be drawn from retailers that remained closed, other commodities and other days of the week. The implication of this is that Sunday trading may accelerate the exit from the market of those retailers in a weaker position to sustain reduced margins, perhaps smaller independent stores – but in the long run, this would improve the efficiency of the retail sector, as would drawing shoppers away from peaks in other days of the week.

⁶⁷ The Institute of Fiscal Studies (1984) *Regulation of Retail Trade Hours*

The IFS concluded that in the long run there would be a small reduction in costs for retailers and:

“...that this reduction would be around 2% of costs equivalent to about 0.6% of retail turnover. Although the increase in concentration in the retail sector might lead to a small rise in profitability, this cost reduction would, if fully passed on in prices, lower the Retail Price Index by approximately 0.4%”⁶⁸.

In 2006, after the England and Wales Sunday trading rules had been relaxed, the UK Government commissioned a report from Indepen on the economic costs and benefits of easing Sunday shopping restrictions on large stores⁶⁹. This report details a model of both retailer costs and consumer convenience and concludes that:

“Taking changes in unit costs and convenience into account a discounted flow of net benefits is calculated, which sums to £20.3 billion in present value terms for the full 20 years. On an annualized basis this is equivalent to £1.4 billion per year, or £64.10 per household per year over 20 years. We note that the assumed time costs due to congestion and coordination problems amount to approximately 10 minutes per household that shops on a Sunday per week, or 2 minutes per week across all households.”

The Indepen report is a cost benefit analysis on further liberalising Sunday trading in England and Wales for larger stores, not the original relaxation of the rules in 1994. So it is worth noting that the report also concludes, for Easter Sunday where large stores are not allowed to open that:

“For Easter Sunday the change in capacity and convenience generates greater benefits than those for a single normal Sunday. We estimate that the benefits would be 100-250 per cent greater for benefit categories other than benefits attributable to reduced store congestion...”

The Indepen report comments that it is not clear whether the introduction in 1994 of Sunday trading for large shops in England and Wales contributed to, or accelerated, the decline in small independent shops, although it also notes evidence submitted by small retailers that suggested that their sales on Sunday were affected.

Smoothing peaks in shopping demand, particularly for grocery shopping, easing congestion in and around supermarkets at current peak shopping times, may possibly be of more benefit to both consumers and retailers on the relatively small islands of Jersey and Guernsey, compared to the UK. Cost reductions from easing peak shopping, however, was not a point made by the supermarkets in favour of relaxing Sunday trading rules in the Channel Islands.

One supermarket operating in both Jersey and Guernsey argued that closing on a Sunday is a driver of costs resulting from wastage and provided figures that show shrinkage in stores in Jersey and Guernsey is higher than the UK and that the difference represented more than 1% of turnover in its Channel Islands stores.

Protection for employees

Under the Employment Rights Act 1996, shop workers in England and Wales who work in large shops have certain rights if they are asked to work on a Sunday. With the exception of

⁶⁸ Ibid

⁶⁹ Indepen, (2006) *The economic costs and benefits of easing Sunday shopping restrictions on large stores*

shop workers who work only on Sundays, shop workers have the right to refuse to work on a Sunday.

There is no Jersey specific legislation that protects workers' rights in terms of Sunday working.

In Guernsey, under legislation⁷⁰, shop workers have the right: not to be dismissed; not to be selected for redundancy; not to suffer any other detriment; for refusing or proposing to refuse, to do work in or about a shop on a Sunday. In a similar way to England and Wales, these rights apply irrespective of age, length of service or hours of work, but they do not apply to those employed to work only on a Sunday.

The current Sunday trading restrictions in Jersey and Guernsey are tighter for larger, rather than smaller, stores. In the event that Sunday trading rules were to be relaxed for larger stores, it is not clear that this would create new employee protection problems, over and above those that already exist for workers employed in smaller stores, or in other sectors of the economy – suppliers of services for example. Moreover, as the Indepen report notes, restrictions on Sunday trading harm the interests of groups of potential employees who do wish to work on Sundays, including for example students and part time workers who may value flexible hours across the whole week.

7.4. Conclusions

If Sunday trading rules restricting trading by larger grocery stores were to be relaxed, it seems likely that there would be some consumer benefits in terms of convenience. In addition, there may be some cost savings to large grocery retailers, which may be competed away to the benefit of consumers – although this is not certain, and depends on competitive conditions, which may vary over time. Equally, it is possible that some smaller convenience grocery stores may be negatively impacted. Consumers, as citizens, often regret the closing of smaller shops, even though they value the often cheaper prices and greater convenience of online and larger stores.

It seems unlikely to us that workers, with adequate legislative protection, would be disadvantaged. Any restrictions for the benefit of those who do not want to work, is at the expense of those who do.

Overall, relaxing Sunday trading rules for large grocery stores may bring benefits to consumers. However, Sunday trading is a matter with competing policy considerations, the balancing of which is for the government in each island to resolve and determine.

⁷⁰ *Employment Protection (Sunday Shop Working) (Guernsey) Law, 2001*

Appendix A

Request by the Minister for Economic Development for the Jersey Competition Regulatory Authority (JCRA) to produce a report examining the retail supply of groceries in Jersey under the authority of Article 6(4) of the Competition Regulatory Authority (Jersey) Law 2001

The aims of the study:

1. To identify the extent of the differences in the prices of groceries sold at retailers in Jersey, Guernsey and the UK, and any other jurisdictions that the JCRA considers may be comparable to Jersey;
2. To identify whether these price differences vary between different categories of groceries (e.g. food vs. non-food; perishables vs. non-perishables; alcoholic vs. non-alcoholic beverages);
3. To quantify the extent to which prices in Jersey can be explained by reference to defined categories of cost in supply chains – in particular, shipping/freight; real property costs; labour costs; compliance with local legislative requirements, and lack of economies of scale, and whether they reflect excessive (‘super-normal’) levels of profits anywhere in those supply chains;
4. To identify whether retail grocery prices, the quality and range of groceries available, or the quality of service in grocery retailing in Jersey reflect a lack of competition and whether there are barriers to entry in grocery retailing in Jersey that may, for example, hinder the entry of new retailers, and to advise on how they could be corrected; and
5. To consider whether any other measures could be taken to increase the extent of competition in grocery retailing in Jersey, or otherwise to improve outcomes for consumers.

For the purposes of this investigation, the relevant scope is the retailing of goods through supermarkets (and other outlets that compete with supermarkets) to residential consumers, and the supply chains used by supermarkets (and their competitors) to bring those goods to Jersey.

Appendix B

Products making up the “real life shop”:

- Medium sliced white bread - 800g loaf
- White rice (long grain) - 500g
- Frozen chicken kievs - 500g
- Dry spaghetti - 500g
- Plain digestive biscuits - 400g
- Fresh pork loin chops - 350g
- Fresh whole chicken – 1.25kg
- Plain ham slices - 100g
- Fish fingers - 300g
- Single tin tuna in brine - 150g
- Double cream - 250ml
- Unsalted butter - 250g
- Cheddar cheese - 200g
- Large oranges - piece
- Single tin whole tomatoes - 400g
- 4 baked bean tins baked beans - 1600g
- Frozen plain cut chips - 1kg
- Baking potatoes - 2kg
- Carrots - 1 kg
- Frozen peas - 500g
- Kitchen cleaning spray - 500ml
- Tomato ketchup plastic bottle - 500g
- 6 large free range eggs
- Washing up liquid - 500ml
- Granulated white sugar - 1kg
- 40 standard tea bags
- Jar of instant coffee granules - 200g

- Kitchen paper towels - 2 roll pack
- Vanilla ice cream - 1 litre
- Vodka bottle - 70cl
- Canned lager - 4x440ml
- Tinned pineapples in juice - 200g
- Carton of long-life orange juice - 1 litre