**Investigating the Existence of a Monopoly in the Supermarket Industry.**

**A2 Economics, Topic: Competition Policy**

You are an economist working for the Competition Commission, you have had the case of ***‘Monopolistic Behaviour (both scale and complex monopoly existing in the market) existing in the supermarket industry’*** referred to you by the Office of Fair Trading. You are now faced with the task of analysing the various pieces of information sent from the OFT. Using monopoly indicators, you must produce a verdict on whether you feel there exists any sort of monopolistic behaviour or activity in the market. If monopolistic behaviour or activity is found to exist, which indicators have helped you form your verdict?

***Evidence 1: The price of own brand sliced white bread, 4 pints of milk, 6 value eggs across five supermarkets. (mysupermarket.com. Dec 2010).***

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| --- | --- | --- | --- |
| ***Supermarket*** | ***Price of Bread (£)*** | ***Price of Milk (£)*** | ***Price of 6 Eggs (£)*** |
| ***Tesco*** | £0.47 | £1.55 | £0.99 |
| ***ASDA*** | £0.47 | £1.25 | £0.63 |
| ***Sainsbury’s*** | £0.47 | £1.55 | £0.89 |
| ***Morrisons*** | £0.47 | £1.55 | £0.89 |
| ***Co-op Group*** | £0.52 | £1.10 | £0.99 |

**Analysis**

***Evidence 2: Recent Mergers and Acquisitions. List of Defunct Supermarkets, which have merged or been bought out by a supermarket in the last 30 years.***

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| **Supermarket** | **Fate** | **Year** |
| Aberness | Bought by Somerfield | 2000 |
| Alldays | Bought by the Co-operative Group |  |
| All 'Ours | Merged with Premier Stores |  |
| Bejam | Bought by Iceland | 1989 |
| Bishops | Bought by Budgens | 1984 |
| BP Safeway | Dissolved following Safeway takeover by Morrisons |  |
| Carrefour | UK business sold to Gateway/Somerfield, then later to Asda | 1990 |
| Capital Freezer Centres | Now owned by Farmfoods |  |
| Circle K | Merged with Alldays |  |
| County Stores | Sold to Gateway, converted to Somerfield | 1990 |
| Crazy Prices | Bought by Tesco |  |
| Day & Nite | Bought by Tesco |  |
| David Greig | Bought by Somerfield |  |
| Europa | Bought by Tesco |  |
| Food Giant | Bought by Kwik Save |  |
| Gateway | Merged with Somerfield |  |
| Select & Save | Bought by Costcutter |  |
| GT Smith | Bought by Co-operative Group | 2002 |
| Hillards | Bought by Tesco |  |
| Irwin's Stores | Bought by Tesco |  |
| Jackson's | Bought by Sainsbury's | 2004 |
| Kwik Save | Bought by Somerfield group 1998. Smaller stores sold to BTTF, after administration smaller stores became FreshXpress | 2007 |
| Local Plus | Bought by the Co-operative Group |  |
| Mainstop | Acquired by Morrisons | 1981 |
| Normid | Rebranded Co-op |  |
| Norco | Rebranded Co-op |  |
| One Stop | Bought by Tesco |  |
| Quality Fare | Bought by the Co-operative Group |  |
| Safeway (UK) | Bought by Morrisons | 2005 |
| 7-Eleven | Taken over by Budgens |  |
| Stewarts Supermarket Limited | Bought by Tesco |  |
| Victor Value | Bought by Tesco | 1996 |
| Wm Low | Bought by Tesco |  |

**Analysis**

***Evidence 3: Sales Figures 2010 of largest five supermarkets and advertising expenditure 2010. (Annual Reports & The Guardian Online).***

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| **Supermarket** | **Revenue (£m)** | **Advertising Expenditure (£m)** |
| ***Tesco*** | 56,910 | 71.2 |
| ***Morrissons*** | 14,528 | 46.5 |
| ***ASDA*** | 19,862 | 44.9 |
| ***Sainsbury’s*** | 19,964 | 53.5 |
| ***Co-op Group*** | 6,900 | 40.2 |

**Analysis**

***Evidence 4: Net Profit Margins of UK’s Largest five supermarkets.***

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| --- | --- | --- |
| **Supermarket** | **Year** | **Net Profit Margin %** |
| ***Tesco*** | 2010 | 4.10 |
| ***Sainsbury’s*** | 2010 | 2.93 |
| ***ASDA*** | 2010 | 3.90 |
| ***Morrisons*** | 2010 | 3.88 |
| ***Co-Operative Group*** | 2010 | 2.44 |

**Analysis**

***Evidence 5: Market Share of Supermarkets 2010.***

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| --- | --- |
| **Supermarket** | **Market Share %** |
| Tesco | 31 |
| Asda | 17 |
| Sainsbury’s | 16 |
| Morrisons | 12 |
| Co-Op Group | 4 |

**Task:**

Now that you have analysed each piece of evidence from the OFT, it is your job to present your findings to the Competition Commission Directors. You should produce a summary of your analysis, and provide a judgement on whether or not you feel there is ***‘Monopolistic Behaviour (both scale and complex monopoly existing in the market) existing in the supermarket industry’.*** You should justify your evaluation of the analysis with facts and figures.

