NEWSLETTER: AUGUST 2018

How will the CMA investigation change the outlook of the Sainsbury's/Asda merger?

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All eyes are back on the Sainsbury's–Asda deal after the Competition & Markets Authority (CMA) announced the start of its investigation. Should the deal progress, everyone will be closely watching what happens to the combined business's property portfolios should the CMA force a sale of stores.

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Digging below the surface, we might read this as being phase two of Sainsbury's strategy of pushing into the discount market. Asda traditionally has a reputation for value and a core customer base which is, generally speaking, a different demographic from the average Sainsbury's shopper. There are also geographical factors at play here, with Asda strong in the north and Sainsbury's in the south.

In the case of retained stores, Sainsbury's will be acquiring some signicant issues. The extent to which the Asda stores holding company continues to operate and whether Sainsbury's decides to, or is able to, guarantee the status of Asda stores may have a real impact on landlord relationships and negotiations in the future.

It is possible that we will see some sort of restructure, with retailers turning to mechanisms such as CVAs, even in businesses that are performing well, to force a conversation with landlords.

At the same time, it shouldn't be forgotten that both Asda and Sainsbury's sweet spot is in food retail, with many of the stores Sainsbury's is acquiring are just too big for the market these days. The fact is that many food retailers are now facing the challenge of having signicant surplus space because of historic expansion strategies – an issue Sainsbury's itself sought to mitigate with the acquisition of Argos. Asda's policy has generally been based on very large-volume stores and while it has a decent non-food range, the format on the whole is not optimised around the core food product.

Looking ahead, if the CMA forces a re-sale of stores, the irony is that the likely buyers are just those brands – Aldi and Lidl – that Sainsbury's is looking to defend itself against.

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Amazon ambitions

Debate will continue to swirl around Amazon's bricks-and-mortar ambitions and they will likely be part of the equation, even if they're not going to be a realistic suitor for true customer-facing stores.

What is perhaps more interesting is whether the CMA considers the likes of B&M and Home Bargains in its deliberations. In some of their larger stores, despite having a restriction of 30% food sales, they could be offering an equivalent sales area to the likes of Aldi and Lidl.

They would be more able to maximise the space on offer in any larger stores that the CMA forces the disposal of, and could arguably compete with the discounters, as well as Sainsbury's and Asda, on both food and non-food.

Overall, in any enforced sale the most attractive sites will likely be any freehold stores in the Sainsbury's/Asda portfolio, which may be sacriced by Sainsbury's/Asda in order to fulfil the merger requirements.

Another possibility in this scenario is that if no, or limited, prospective buyers for the largest sites can be found, the CMA may be forced to consider forcing a sale of Sainsbury's smaller or convenience stores. These would arguably be much more attractive to potential buyers and any signicant convenience portfolio reduction could be a real fly in the ointment for the merger.

For further discussion or information get in touch with Richard Curry, Partner in Rapleys Retail & Leisure Group.