

In the money Sainsbury's and Asda have got a lot of what it takes to get along

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But will competition regulators agree to the proposed merger?



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WAITING in a studio for a TV interview on April 30th, Mike Coupe, the boss of Sainsbury's supermarket, was caught on camera quietly singing "We're in the money" to himself. Having just announced the biggest deal in the grocery business for over a decade, it is easy to see why the tune might have come to mind.

Nonetheless, he had to apologise quickly, for fear of appearing rather smug—and for getting ahead of himself. Sainsbury's proposed merger with Asda might boost the two supermarkets, but the competition authorities could well rule against it. The proposed deal is another example of the unwelcome and increasing concentration of capitalism in Britain.

Some consolidation in the cut-throat supermarket business had been expected. A tie-up between the second-largest store, Sainsbury's, and third-largest, Asda, owned by America's Walmart, makes a lot of sense for both parties. Combining market shares of 15.9% and 15.5% respectively, according to Kantar Worldpanel, the new entity would leapfrog the current market leader, Tesco, which has 27.6%.

Scale is vital to grocers, giving them more muscle to negotiate with suppliers. Sainsbury's and especially Asda have been hit by the success of Aldi and Lidl. Ten years ago the German discounters had about 4% of the market. Now they have nearly 13%. Mr Coupe says the proposed merger could cut prices across the new group by 10%. Whether this would be enough to compete with the discounters remains to be tested.

Synergies between the two companies could save £500m (\$680m). Sainsbury's bought Argos, a home retailer, in 2016 and would roll out Argos stores in Asda as well. Sainsbury's could exploit Asda's advanced logistics systems, while Asda would benefit from Sainsbury's much stronger presence online. In that market they face a new competitor in Amazon, which started selling groceries in Britain in 2016.

The two firms have got a lot of what it takes to get along. But competition regulators may feel differently. There are many places where Sainsbury's and Asda stores are close by. Regulators may thus insist on the sale of one or other. They could even block the deal altogether.

The deal comes in a context of increasing concentration in many industries. In the past decade Britain has witnessed about \$2trn-worth of mergers and acquisitions of domestic firms. Our analysis suggests that, relative to the size of the economy, that is over a fifth more than in America over the same period. American economists and politicians are increasingly concerned that their economy has become too concentrated, limiting competition and eroding consumer welfare.

Perhaps Britain should worry more, too. Over the past two decades corporate profits as a share of GDP have been roughly 50% higher than their long-term rate. Profitability, as measured by return on capital, is also near a historical high. Regulators must ask whether companies are in the money a little more than is healthy.