Walmart's Asda and J Sainsbury vow to cut prices in UK by £1bn per year if merger approved

Wal-Mart Inc’s (NYSE:WMT) Asda and J Sainsbury PLC (LON:SBRY) have promised to slash prices by £1bn each year as part of a series of proposed remedies to allay UK competition watchdog’s concerns about their planned merger.

Last month the UK Competition and Markets Authority suggested it was leaning towards blocking the £10bn merger after provisional findings of its investigation raised "extensive competition concerns".

READ: Sainsbury’s plunges as UK regulators leaning towards blocking £10bn Asda merger
Concerns included higher food and petrol prices in markets where both companies have supermarkets and petrol stations as well as reduced quality and choice for customers.

The CMA said it was considering either blocking the merger entirely, forcing the companies to sell off a significant number of stores or making the pair sell off other assets, including one of their brands.

Sainsbury’s and Asda 'strongly disagree' with CMA findings
In a Tuesday statement, Sainsbury's and Asda said they "strongly disagree" with the CMA's provisional findings and thinks the regulator's analysis of the deal contained "significant errors".

"This is compounded by the CMA's choice of a threshold for identifying competition problems that does not fit the facts and evidence in the case and that is set at an unprecedentedly low level, therefore generating an unreasonably high number of areas of concern," they said.

In response to the CMA's concerns, Sainsbury’s and Asda said they would lower prices by £1bn each year by the third year after completing the merger.

The companies will use cost savings from the merger to invest £300mln in the first year of the combination and a further £700mln over the following two years, which they expect to reduce prices by about 10% on everyday items.

Deal to deliver £1.6bn cost savings
The supermarkets expect £1.6bn in cost savings to arise from increased purchasing power with suppliers, putting Argos stores into Asda, jointly buying shared goods and service and reducing central costs.

They said the cost savings will also allow them deliver commitments to shareholders of £500mln of net synergies, "low double digit" return on invested capital and "double digit" earnings per share accretion by the end of the second full financial year after completion.

Sainsbury’s said it would cap its fuel gross profit margin to no more than 3.5p per litre for five years while Asda will “guarantee its existing fuel pricing strategy".
Sainsbury’s will also ensure it pays small suppliers that have a turnover with the business of less than £250,000 within 14 days. Asda will continue to pay its small suppliers within the same time frame.

“We have proposed a reasonable yet conservative remedy package and hope the CMA considers this so that we can deliver the cost savings for customers,” Sainsbury’s boss Mike Coupe said.

The CMA’s final report is expected by April 30.

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