



Nisa Retail / Co-operative Group Merger Inquiry

ACS (the Association of Convenience Stores) welcomes the opportunity to contribute to the CMA's inquiry into the proposed merger between Nisa Retail and the Co-operative Group. ACS represents 33,500 convenience stores operating in a variety of locations and with a range of operating models. A detailed appendix of information is attached to this submission, and we are happy to share all the data we have on the market with the CMA. We hope to have the opportunity to assist further in this inquiry and to meet with you during phase one of your investigation. ACS' comments will seek to be factual, and to raise issues based on our understanding of the market.

ACS members include Nisa Retail, the Co-operative Group, Costcutter McColls, and many regional co-operatives, including Central England Co-operative, East of England Co-op, Lincolnshire Co-op, Midcounties Co-operative, Scotmid Co-operative, and The Southern Co-operative. Many of these regional co-operatives have supply arrangements with the Co-operative Group (discussed more below). ACS' membership includes a number of competitors to both Nisa Retail and the Co-operative Group who may be impacted by the proposed merger. Those companies may make their own comments in respect of this inquiry.

While we have consulted with a breadth of members in preparing this submission, it cannot be taken as representative of all of their views, and we strongly encourage the CMA to consider all representations. ACS has just over one hundred suppliers as associate members through our Premier Club, Club and Connect benefit packages. This submission is not written on their behalf, but we encourage you to engage with suppliers as part of your investigation. ACS is happy to facilitate contact between the CMA and any companies we work with. We will share formal communications from the CMA with our members unless you specifically ask us not to.

When discussing the market in this submission, we are seeking to inform the CMA rather than persuade the CMA of a particular view. Where we comment on economic incentives in the market that may be affected by this merger, we do not seek to imply that every operator would necessarily act on every incentive that may arise from this merger. Our comments are restricted to the convenience retail sector on which we have information and experience to share.

The convenience retail market

ACS' Local Shop Report is appended to this submission and includes most of the key market information referenced.

There are 49,918 convenience stores in the UK¹. These stores are typically under 186 sq m and offer a wide range of products rather than being a specialist in one

¹ ACS Local Shop Report 2017

particular product category. Many convenience stores will have extended their offer from a base of being a traditional newsagent, off licence or grocer. Convenience stores tend to operate over long opening hours. Convenience stores trade in every type of rural, urban and suburban location, often as the only remaining store in a village or neighbourhood. Around 17% of convenience stores are located on petrol forecourt sites².

The convenience store sector accounts for £38 billion in sales, which is around one fifth of the total UK grocery market³. The products sold in these stores typically include tobacco, chilled foods, alcohol, fresh produce, frozen, canned and packaged grocery, bread, soft drinks, newspapers and magazines, milk and dairy products, health and beauty products, snacks and confectionery. 55% of customers typically visit convenience stores at least every other day to top up on these products, to meet the bulk of their household shopping needs, for treats, or for other daily purchases. Increasingly, convenience stores offer services as well as products, with stores offering Post Offices (21%), lottery tickets (79%), cash machines (58%) and parcel services (29%)⁴.

Supply to the convenience retail market

Convenience stores source product from a number of wholesalers or direct suppliers, in some cases through deliveries to their store, and in some cases by picking up product from a depot (generally known as cash & carry wholesaling). There are countless models that retailers will use for sourcing product, but below are illustrations of some supply models that broadly cover the main supply chain relationships used by the bulk of convenience retailers. There will be many retailers operating with some combination of these models, and many retailers will use more than one of each type of wholesale supplier.

Figure 1: Illustration of suppliers to independent convenience retailers



² ACS Local Shop Report 2017

³ ACS Local Shop Report 2017

⁴ ACS Local Shop Report 2017

While much of this part of the submission describes the relationships between wholesalers and independent retailers, it is important to note that wholesalers including Nisa Retail also supply other convenience store businesses. This may be through a supply agreement covering all or part of the product sold in their stores, or through agreements whereby a convenience multiple group uses a symbol brand in some or all of their sites. Retail groups may also work together to offer services in one businesses' stores under the other's brand, on a franchise basis. For example, Rontec is currently running a number of sites under franchise with the Morrisons Daily brand. As well as supplying its symbol stores and unbranded independents, Nisa will supply third party retail groups on a contract basis.

Symbol retailing

The symbol group model has been a strong and enduring part of the convenience store market. In order to understand its role in the market, it is worth reviewing how and why it came about.

Wholesalers have clear incentives to build loyalty among their retail customer base. Not only does greater loyalty help to grow sales and allow these to be more accurately forecast, but it allows wholesalers to strike deals with manufacturers over promotions and other commercial agreements which include the delivery of an offer to the end consumer, rather than being limited to the offer from the wholesaler to the retailer. As part of this effort to build loyalty, wholesalers have developed retail brands now commonly known as symbol groups, including branding of the store fascia, other elements of store design, a programme of customer promotions, and a core range of products that are offered to the consumer.

Each symbol group will operate with its own contractual and commercial standards and appended to this submission are some recent guides to symbol groups from the trade press which give a sense of some of the differences between these groups. Some symbol groups charge fees to retailers, some do not. It is common for wholesalers to seek a minimum level of purchasing from their retail customers who use their symbol group services, which may be expressed in terms of actual spend or as a proportion of their overall shop sales. Some symbol groups include provision of electronic point of sale (EPOS) and other systems as part of their agreements with retailers. Some symbol groups are based on delivered wholesale supply, some are based on cash and carry supply, and some use a combination of these supply methods.

Symbol retailing has many features in common with franchising – working under a common brand, central standards and a shared marketing proposition – but it is fundamentally different in that a symbol retailer is an independent business that can make their own buying and operational decisions. These may be constrained by agreements with their wholesaler, but typically symbol retailers have far more scope than a franchisee, where the store owner implements a retail offer determined by the franchisor. Some of those currently operating as franchisees have previously been symbol group retailers, and vice versa. The different dynamics of symbol and franchise retailing are critical to understand in order to assess the implications of this merger, and we strongly recommend that the CMA considers these differences and

the way these models work in practice, a process in which ACS will gladly help in any way we can.

Some symbol groups are not run by wholesalers but have formed as groups of retailers or through running a commercial model based on negotiating terms with suppliers. These groups will typically strike a supply agreement with one or more wholesalers in order to service their branded stores.

The Co-operative Group and Regional Co-operatives

The Co-operative Group directly operates 2,002 convenience stores across the UK. There are 958 stores operated by regional co-operatives societies⁵ that have differing supply and wholesaler arrangements with the Co-operative Group. Regional co-operatives have operational autonomy, but often follow the operations of the Co-operative Group.

Regional co-operative stores are supplied through Federal Retail and Trading Services Limited (formerly the Co-operative Retail Trading Group), where the Co-operative Group acts as a wholesaler. This is the central buying group for co-operative retail societies. Federal Retail and Trading Services Limited was incorporated in 2014 and is 75% owned by the Group and 25% owned between the 7 largest regional co-operative societies⁶.

The UK wholesale market

Convenience stores are supplied by a broad range of wholesalers. Typically, wholesalers will service a range of customers including retailers, cafes, restaurants and catering operations in the public and private sector. There are many wholesale companies that include convenience stores as part of their customer base. Research from the Federation of Wholesale Distributors suggests there are 670 food and drink wholesalers that supply the sector. Some wholesalers affiliate with buying groups, the largest of which are Landmark Wholesale and the Today's Group. These groups negotiate collective terms with manufacturers which can be offered by members of that group. These groups have also developed symbol brands for their members to offer to their retail customers. For more details on the UK wholesale market, we would encourage the CMA to engage with the Federation of Wholesale Distributors.

Wholesale competition and switching

Retailers can and do switch between symbol groups and wholesalers. A retailer's decision to switch to a different symbol group may be due to any combination of:

- improved wholesale prices;
- better service levels;
- more frequent or better-timed deliveries;
- better product availability;
- access to a wider or more relevant product range;
- improved credit terms;

⁵ Also referred to as Independent Society Members by the Co-Operative Group

⁶ Co-Op Annual Report 2016

- enhanced consumer marketing activity driven by the group;
- better quality, commonality and support, and lower prices for IT and other systems;
- beneficial terms for purchasing equipment;
- higher quality and / or lower cost of staff training;
- greater retail expertise and advice offered.

Just as these improvements in the wholesale offer are ways in which wholesalers can seek to win a retailer's business, they are all ways in which a wholesaler could in theory weaken its offer if it wished to negatively influence a retailer's ability to compete.

There are limited contractual barriers to retailers switching between symbol groups, as contract terms and notice periods tend to be short and linked to co-investment rather than applied on an ongoing basis. There are also practical barriers for retailers in switching between symbol groups, as this requires changes to the branding used throughout the store and can require changes to systems and processes. A retailer could also switch part of their wholesale supply without leaving their symbol group. This would be dependent on the amount of product they were sourcing from another wholesaler, and their relationship with their symbol group.

Considering changes in wholesaler service that would directly raise prices for the retailer, it is likely that these would be passed on to a large extent by the retailer to their customers. Many convenience retailers are facing increasing costs especially related to employing staff, and they would usually be unable to fully absorb product cost increases. Where increased prices are paid by the retailer, they would probably pass them on to a different degree with different products depending on their customer base, their mix of products and gross profit margin, and the level of price elasticity on different products in their store. These dynamics would play out in inverse in the event wholesale prices falling.

ACS does not have data on the frequency with which retailers change their wholesalers - we would be happy to work with the CMA to try to find this data. We suggest that the best place to get this information is through discussion with the groups themselves who will hold data on movements in their membership.

Proposed merger of Nisa Retail and the Co-operative Group

The proposed merger of Nisa Retail and the Co-operative Group has been one of a number of significant changes in convenience retail market in recent times. This proposed merger was preceded by the merger of Tesco and Booker and since that time Palmer & Harvey have ceased trading in the market. ACS has surveyed retailers as part of our Voice of Local Shops survey to understand their views on the recent changes in the convenience market and how it will affect their business. The results are shown below.

Figure 3: During the past year there have been several changes to the wholesale market e.g. Tesco buying Booker, Co-Op buying Nisa, Morrisons supplying McColl's and the closure of Palmer & Harvey. To what extent do you agree with the following statements?:⁷



The results of the survey of 1,210 independent and symbol group retailers at best identifies that there remains considerable uncertainty about the implications of the recent changes in the market for retailers' businesses. The strongest indication, although marginal, is that retailers believe there will be less choice of wholesalers to supply them (33%), and retailers (33%) do not think it will lead to a reduction in wholesale prices. These results tally with our own conversations with retailers since the numerous mergers and closure of Palmer & Harvey have happened, with many retailers unsure of the impact on their business and waiting to find out more details. This survey also suggests that there are limitations to understanding retailers' views on market changes through telephone polling.

Competition issues arising from the merger

Based on our knowledge of the market, we think it is appropriate for the CMA to consider a number of potential competition implications. These are set out in summary below, and we would welcome the opportunity to expand on these views through discussion with the CMA.

Competition between convenience stores

There will be locations where stores currently supplied by Nisa Retail compete with stores currently run by or supplied by the Co-operative Group. This relates to Co-op Stores, regional co-operatives, Nisa Local, Costcutter and other stores supplied by Nisa Retail but operating under their own fascia or under that of another symbol group where Nisa Retail supplies some goods to those stores. ACS cannot offer any detailed location analysis but would be happy to help the CMA in framing any of such analysis.

⁷ The total sample for this survey was 1,210.

The stores mentioned above cover the full range of models operated in the convenience sector, from managed stores, to symbol stores, to unaffiliated retailers. The degree of influence that Co-operative Group and Nisa Retail has over the retail offer in these stores will vary with these models and the way that individual retailers choose to operate within that relationship. The table below shows the ways in which Co-operative and Nisa Retail would typically influence the retail offer in these stores.

Figure 4: Analysis of degree of central control and influence over stores

Brand Co-op (C) or Nisa (N)	Range	Promotions	Price	Systems and store design
Co-op (C)	Centrally set	Centrally set	Centrally set	Centrally set
Regional Societies (C)	Recommended range, retailer able to buy from other sources	Centrally set promotional cycle supported	Retail price set by regional co-operatives	Brand guidelines encouraged by centre
Nisa Local, Extra, Loco, Dual Branded (N)	Recommended range, retailer able to buy from other sources	Centrally negotiated promotional cycle supported by central marketing communications	Recommended prices	Brand guidelines encouraged by centre
Nisa supplied Independents (N)	Recommended range, retailer able to buy from other sources	Centrally negotiated promotional cycle supported by central marketing communications	Recommended prices	Brand guidelines encouraged by centre
Costcutter (N)	Range recommended by Costcutter, advice offered by Costcutter, retailer able to buy from other sources.	Costcutter set their own promotional programme.	Retail price recommended to retailers by Costcutter, wholesale price by negotiation.	Brand guidelines encouraged by Costcutter
Martin McColls⁸ (N)	Range set by McColls,	McColls run their own promotional programme.	Retail price set by McColls, wholesale price by negotiation.	Set by McColls

We encourage the CMA to consider the retail competition between these stores based on the realities of how they trade, and on the degree of influence that could be exerted by the merged business. These groups cannot be regarded as competing retail businesses in the same way as two owned and managed estates of stores would be.

⁸ A number of McColls stores are currently supplied by Nisa. McColls have agreed a new supply contract with Morrisons. The information in this table refers to the current relationship between McColls and Nisa.

The table above demonstrates that supply arrangements are far more complex than just the supply of goods. The Co-operative Group does not provide recommended prices to regional co-operatives but does recommend range and encourage brand guidelines. Nisa Retail provides recommended prices, recommended pages and encourages brand guidelines to its symbol group retailers and supplied independents. However, Nisa Retail's arrangements with Costcutter and Martin McColls only applies to the supply of goods. Costcutter and McColls will negotiate their own promotions and will not be formally offered advice on range and prices.

We believe that an assessment of the degree of influence the merged company would have over each of these trading models is crucial to understanding the impact of this merger on retail competition at a local and national level. This analysis will to some extent depend on the structure of the new company's relationship with independent retailers. This could take the form of a normal symbol arrangement broadly described for Nisa Local stores in the table above. It could also include for some stores having a franchise agreement which could be similar to the description given in figure 1.

Information regarding retailers and customers

One consequence of this merger would be that information on the retail outlets set out above would be held by the merged company. This raises some potential competition issues for consideration.

The merged business would own information on their trading through the stores they own and operate, and on their wholesale trade with independent stores. This wholesale data may not be comprehensive in revealing the trade conducted by those independent customers because those retailers would in most cases also use other suppliers. It is likely that the merged business would have a strong understanding through its account management of which of its customers are most loyal and therefore sourcing most of their product through them, and which were more likely to be sourcing a large proportion of their goods from elsewhere.

Some symbol groups strike agreements with their retail customers over IT and EPOS systems, one of the consequences of which is that the group has access to retail sales data. We encourage the CMA to explore this issue and to understand the level of data the merged group would have related to retail sales through independent outlets.

The Co-operative Group has a well-established membership rewards scheme, similar to those run by other retailers, through which it gleans data on consumer behaviour in their stores. Should the Co-operative Group membership reward scheme be extended to Nisa Retail they will be able to gather more data and potentially target offers and products in Nisa Retail stores.

Whatever level of information the merged company held on whatever group of convenience stores and their customers, there would be economic incentives for them to adjust their offer in different outlets to maximise profit, market share or other business objectives. We encourage the CMA to explore this issue and to understand

the level of data the merged group would have related to customers shopping in all of the outlets they supply or manage, and to assess the degree to which this could in practice be used to affect competition.

Suppliers

The merger also has implications for suppliers to the Co-operative Group and Nisa Retail. Many suppliers will trade with both Nisa Retail and the Co-operative Group and may see changes to their terms as a result of this merger. Other suppliers may trade with one group and may see an opportunity to extend that business across the merged group or see a threat to their business should the merged group consolidate their supplier base.

Changes in terms negotiated between suppliers and the merged group may have a knock-on impact on terms negotiated with other wholesalers and retailers. We would encourage the CMA to analyse whether any change in buying terms for the merged group would lead to structural changes in the relative buying terms of different wholesalers, and if so what the likely effects of this concentration would be for suppliers and ultimately for consumers. ACS does not own detailed information on the dynamics of these supplier relationships.

Summary

ACS wishes to see proper consideration of the merger based on a full understanding of the convenience store and wholesale sectors. We are keen to discuss all of these issues with the CMA, and we will prioritise supporting the CMA with the provision of information and analysis.

APPENDICES

ABOUT ACS

The Association of Convenience Stores lobbies on behalf of around 50,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple convenience retailers running thousands of stores.

Convenience stores trade in a wide variety of locations, meeting the needs of customers from all backgrounds. These locations range from city centres and high streets, suburban areas such as estates and secondary parks, rural villages and isolated areas, as well as on petrol forecourts and at travel points such as airports and train stations.

ACS | the voice of local shops

WHO WE REPRESENT

INDEPENDENT RETAILERS



ACS represents 22,597 independent retailers, polling them quarterly to hear their views and experiences which are used to feed in to Government policy discussions.

These stores are not affiliated to any group, and are often family businesses with low staff and property costs. Independent forecourt operators are included in this category.

SYMBOL GROUPS AND FRANCHISES



ACS represents 14,659 retailers affiliated with symbol groups. Symbol groups like SPAR, Nisa, Costcutter, Londis, Premier and others provide independent retailers with stock agreements, wholesale deliveries, logistical support and marketing benefits.

Symbol group forecourt operators and franchise providers like One Stop are also included in this category.

MULTIPLE AND CO-OPERATIVE BUSINESSES



ACS represents 12,862 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls, Convenience Retail and others.

Unlike symbol group stores, these stores are owned and run centrally by the business. Forecourt multiples and commission operated stores are included in this category.

THE CONVENIENCE SECTOR



In 2017, the total value of sales in the convenience sector was £30bn.

The average spend in a typical convenience store transaction is £6.28.



There are 48,918 convenience stores in mainland UK; 74% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.



The convenience sector provides flexible employment for around 370,000 people.

34% of independent/symbol store employ family members only.



30% of shop owners work more than 70 hours per week, while 19% take no holiday throughout the year.

72% of business owners are first time investors in the sector.



Convenience stores and Post Offices poll as the two services that have the most positive impact on their local areas according to consumers and local councils.

79% of independent/symbol retailers have engaged in some form of community activity over the last year.



Between August 2016 and May 2017, the convenience sector invested over £858m in stores.

The most popular form of investment in stores is refrigeration.

OUR RESEARCH

ACS polls the views and experiences of the convenience sector regularly to provide up-to-date, robust information on the pressures being faced by retailers of all sizes and ownership types. Our research includes the following regular surveys:

ACS VOICE OF LOCAL SHOPS SURVEY

Regular quarterly survey of over 1200 retailers, split evenly between independent retailers, symbol group retailers and forecourt retailers. The survey consists of tracker questions and a number of questions that offer each time to help inform ACS' policy work.

ACS INVESTMENT TRACKER

Regular quarterly survey of over 1200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

ACS LOCAL SHOP REPORT

Annual survey of over 2400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 6,291 stores. The Local Shop Report also draws on data from HM, 10D, Nielsen and William Reed.

BESPOKE POLLING ON POLICY ISSUES

ACS conducts bespoke polling of its members on a range of policy issues, from crime and responsible retailing to low pay and taxation. This polling is conducted with retailers from all areas of the convenience sector.

For more information and data sources, visit www.acs.org.uk

Local Shop Report 2017

The 2017 edition of the Local Shop Report is ACS' most comprehensive look at the convenience store sector, providing new insights with a deep and wide-ranging look at the people who run, work and shop in the UK's local convenience stores. The full Local Shop Report 2017 is available [here](#).

ACS Retail Membership

A list of ACS retail members on available in full on ACS' website [here](#).

Trade Press Symbol Groups Guides

Talking Retail Guide to 2018

A copy of Better Retailing's *Focus on Fascia and Franchise 2017* is available [here](#)

A copy of Independent Retail News's *The Guide 2017* has been posted to the CMA offices

A copy of Convenience Store's *Fascia, Franchise & Retail Club Focus - February 2017* has been posted to the CMA offices.

Grocery Market Structure 2017

The William Reed Grocery Retail Structure 2017 has been submitted to the CMA alongside ACS' formal submission.