



Tesco / Booker Merger Inquiry

ACS (the Association of Convenience Stores) welcomes the opportunity to contribute to the CMA's inquiry into the proposed merger between Tesco and Booker. ACS represents around 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 Booker, One Stop (which is owned by Tesco), and a number of competitors to both Booker and Tesco who may be impacted by the proposed merger. Those companies may make their own comments in respect of this inquiry. While all of ACS' larger members and a number of independent retail members have been consulted on 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 benefits 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.

In 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; we recognise that the implications of this merger stretch to the foodservice market, and that this market is in many ways related to the convenience retail market, but we have not extended our commentary and analysis into that market at this stage.

The convenience retail market

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

There are 50,095 convenience stores in the UK. These stores are typically under 280 sq m and offer a wide range of products rather than being a specialist in one 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 18% of convenience stores are located on petrol forecourt sites.

The convenience store sector accounts for £37.5 billion in sales, which is around one fifth of the total UK grocery market. 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. Customers typically visit convenience stores several times a week 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 (17%), lottery tickets (76%), cash machines (51%) and parcel services (28%).

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.

Figure 1: Illustration of suppliers to independent 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.

To give some context on Booker’s role in these supply chains, ACS surveyed independent retailers regarding their relationship with Booker. Figure 2 shows this data, which should be viewed as indicative of the breadth of convenience stores that currently use Booker as one of their suppliers. It is based on a sample rather than being market share data.

Figure 2: Retailers' relationships with Booker ¹

| Affiliation with Booker | Store type | Total | % share |
|--------------------------------|-------------------|--------------|----------------|
| Use Booker | Independent | 573 | 48 |
| | Symbol | 254 | 21 |
| | Total | 827 | 70 |
| Do not use Booker | Independent | 138 | 12 |
| | Symbol | 219 | 18 |
| | Total | 357 | 30 |

While much of this part of the submission describes the relationships between wholesalers and independent retailers, it is important to note that wholesalers including Booker also supply larger 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. There are also trials being conducted where multiple groups use other retail brands under a franchise model, for example Rontec with some Morrisons franchise stores and MRH Retail with some Co-op franchise sites.

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

¹ Data taken from sample of 1,210 stores, excluding those identifying as One Stop retailers.

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.

Unaffiliated independents

Retailers who choose not to align to symbol brand are typically less loyal to their main wholesaler, choosing to buy from a variety of cash and carries, delivered wholesalers and specialist or local suppliers. There are examples of retailers who work very closely with one wholesaler, but choose to trade under their own brand.

Retailers (whether symbol operators or unaffiliated) usually have a choice of cash and carry wholesalers, particularly in urban areas. The OFT's inquiry into the acquisition of Makro by Booker will have considered this market in detail, and we would encourage the CMA to review this work as part of this inquiry.

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. 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;
- 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, so 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, their relationship with their symbol group.

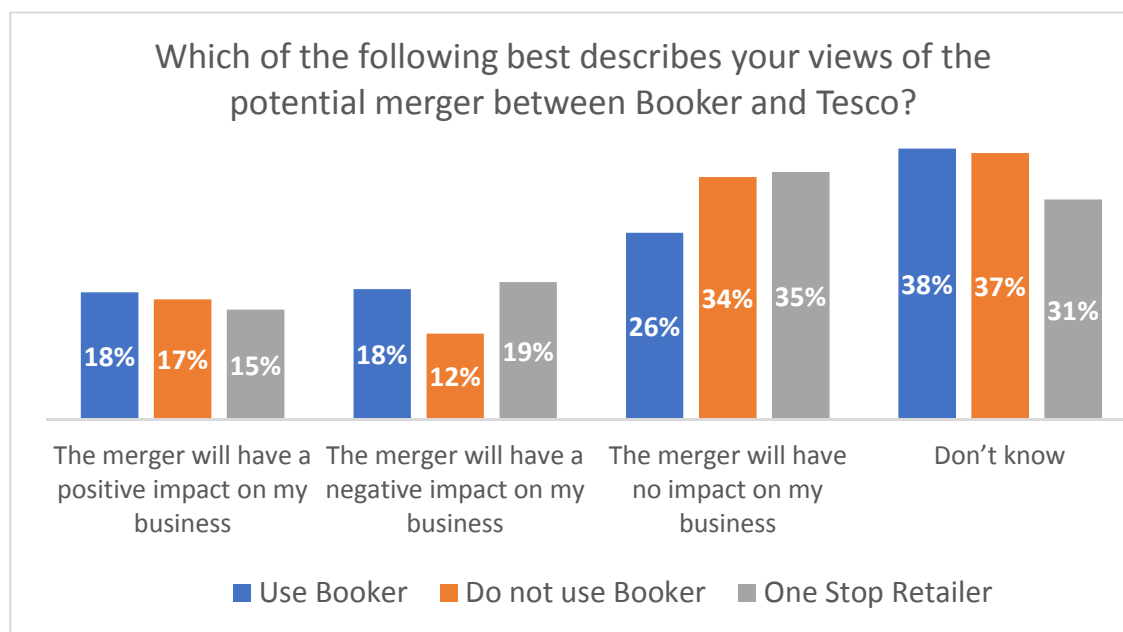
Considering changes in wholesaler service that would directly raise prices for the retailer, it is likely that these would be passed on to a large extent by the retailer to their customers. Many convenience retailers are facing increasing costs especially related to employing staff, and they would usually 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 Tesco and Booker

As the parties to this merger are respectively the largest grocery retailer and the largest wholesaler in the UK, it is not surprising that there has been considerable reaction and speculation over the impact of the merger on the grocery market and specifically the convenience store sector. ACS has surveyed retailers as part of our Voice of Local Shops survey, and results are shown here.

Figure 3: Independent retailers' opinions on Tesco / Booker merger ²



This result tallies with our own conversations with retailers since the merger was announced, with many retailers unsure of the impact on their business and waiting to find out more details on the merger, while others are broadly split between viewing it positively and negatively. This survey also suggests that there are limitations to understanding retailers' views on this merger through a telephone polling.

Competition issues arising from the merger

Based on our knowledge of the market, we think it 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 Booker compete with stores currently run by or under franchise with Tesco. This relates to the Londis, Budgens, Family Shopper, Premier, Tesco Express and One Stop brands, and to stores supplied by Booker but operating under their own fascia or under that of another symbol group where Booker supplies some goods to those stores. It is also worth noting that larger stores owned by Tesco will compete with these convenience stores in some locations. ACS cannot offer any detailed location analysis but would be happy to help the CMA in framing any of any such analysis.

² The total sample for this survey was 1,210. The sample for One Stop retailers is surprisingly large given that One Stop franchisees represent less than 0.5% of independent retailers, but appear to make up over 2% of this sample. Five of the 26 retailers identifying themselves as One Stop retailers were in fact unaffiliated retailers according to the database used for the survey. It is possible that some of those identifying as One Stop retailers were describing their view of their trading profile rather than stating the brand under which they trade. These results are left in this table for completeness but we would advise that this specific detail may not be correct.

The stores mentioned above cover the full range of models operated in the convenience sector, from managed stores (Tesco Express and most One Stop stores), to franchise stores (around 160 One Stop stores), to symbol stores (Family Shopper, Londis, Budgens and Premier) to unaffiliated retailers (many Booker customers). The degree of influence that Tesco and Booker has over the retail offer in these stores will vary with these models and with the way that individual retailers choose to operate within that relationship. The table below shows the ways in which Booker and Tesco would typically influence the retail offer in these stores.

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

| Brand (Tesco (T) or Booker (B)) | Range | Promotions | Price | Systems and store design |
|-------------------------------------|---|---|---|---------------------------------------|
| Tesco Express (T) | Centrally set | Centrally set | Centrally set | Centrally set |
| One Stop managed (T) | Centrally set | Centrally set | Centrally set | Centrally set |
| One Stop franchise (T) | Centrally set with limited flexibility to incorporate other products into range | Centrally set with limited flexibility to run other promotions on local product | Centrally set maximum prices | Centrally set |
| Family Shopper (B) | Recommended range, retailer able to buy from other sources | Centrally set promotional cycle supported by central marketing communications | Recommended prices | Brand guidelines encouraged by centre |
| Budgens (B) | Recommended range, retailer able to buy from other sources | Centrally set promotional cycle supported by central marketing communications | Recommended prices | Brand guidelines monitored by centre |
| Londis (B) | Recommended range, retailer able to buy from other sources | Centrally set promotional cycle supported by central marketing communications | Recommended prices | Brand guidelines encouraged by centre |
| Premier (B) | Recommended range, retailer able to buy from other sources | Centrally set promotional cycle supported by central marketing communications | Recommended prices | Brand guidelines encouraged by centre |
| Unaffiliated independent (B) | No set range, some advice offered | Offered at wholesale with some support on consumer marketing | Recommended prices, usually from manufacturer | Advice provided |

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. It is clear that these groups cannot be regarded as competing retail businesses in the same way as two owned and managed estates of stores would be, and 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.

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 owned and operated, 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. Booker has generally not been prescriptive with its retail customers over the IT and EPOS systems that they should use in their stores, so it is currently less likely to own retail sales data from its retail customers. 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.

Tesco has a well-established Clubcard loyalty scheme through which it gleans data on consumer behaviour in their stores. Clubcard is extended to Esso fuel sites (some of which are run by retailers that are part of other symbol or multiple convenience store groups). Should Clubcard be offered in convenience stores operated by Booker customers (either in defined symbol sites or more widely) that would potentially give the merged group detailed information on consumer spending and behaviour across a range of sites.

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 Booker and Tesco. In announcing the proposed merger, Booker and Tesco have identified potential cost savings including some related to improved buying terms. Many suppliers will trade with both Booker and Tesco 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 sector. 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

Local Shop Report 2016

The 2016 edition of the Local Shop Report is our 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 2016 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

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.