COMPETITION COMMISSION

# Booker Group PLC/Makro Holding Limited

A report on the completed acquisition by Booker Group PLC of Makro Holding Limited

**19 April 2013**

*Website:* www.competition-commission.org.uk

## Members of the Competition Commission who conducted this inquiry

Simon Polito *(Chairman of the Group)*

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## Chief Executive and Secretary of the Competition Commission

David Saunders

The Competition Commission has excluded from this published version of the final report information which the Inquiry Group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [✂]. Non-sensitive wording is also indicated in square brackets.

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# Summary


1. On 8 November 2012, the Office of Fair Trading (OFT) referred the completed acquisition by Booker Group PLC (Booker) of Makro Holding Limited (Makro) to the Competition Commission (CC) for investigation and report. We published our provisional findings on 14 March 2013. We were required to publish our final report by 24 April 2013.

2. The parties are UK-based wholesalers which supply a range of food, drinks, grocery and non-food products. Booker also operates Premier, a convenience store symbol group. Booker acquired the entire issued ordinary share capital of Makro on 4 July 2012. Prior to its acquisition, Makro was the UK subsidiary of German-based wholesale and retail operator Metro AG (Metro).

3. We have concluded that Booker and Makro have ceased to be distinct enterprises and that a relevant merger situation has been created by the acquisition. We considered whether the creation of that situation has resulted, or may be expected to result, in an SLC within any market or markets in the UK for goods or services.

4. As wholesalers, Booker and Makro sell grocery and related non-grocery products to retailers, caterers and other traders. These business customers may: *(a)* sell these products directly on to the end-consumer (retailing); or *(b)* use the products to manufacture goods which are then sold on to the end-consumer (eg catering); or *(c)* consume the products within a business. In addition to the core activity of selling products in large quantities, wholesaling also includes warehousing, transportation, product consolidation and inventory management.

5. Booker and Makro overlapped in the cash-and-carry wholesale supply of grocery and related non-grocery products in Great Britain. There are five channels, aside from direct supply, that suppliers use as a route to market: *(a)* cash-and-carry wholesalers; *(b)* delivered grocery and foodservice wholesalers; *(c)* specialist wholesalers; *(d)* symbol groups; and *(e)* buying groups. Booker is the largest cash-and-carry wholesaler by revenue operating in the UK. It has 172 stores. Makro was the fourth largest cash-and-carry wholesaler by revenue in the UK. It had 30 stores. The businesses overlapped in 29 local areas. Makro had one store in Northen Ireland where Booker has no presence.

6. We assessed what would have happened in the absence of the merger (the counterfactual). We concluded that it was unlikely that the Makro business would have returned to profitability in the short to medium term and that it was most likely that Metro would have tried to exit the Makro business through another sale process. We found that it was unlikely that another wholesaler would have acquired the entire Makro business but that Bestway Cash & Carry Limited and Costco Wholesale UK Limited could have acquired some of the Makro stores. We decided that it was most likely that Metro would have taken the quickest exit route and would have sold the entire Makro business to a distressed business specialist. We concluded that this would have most likely resulted in the piecemeal sale of the Makro stores to various parties, including wholesalers and non-wholesalers. We considered the likely local outcomes in our area analysis.

7. We assessed the relevant market definition for the inquiry. We concluded that the relevant product market is the cash-and-carry wholesaling of grocery and related non-grocery products. However, we recognized that other supply channels, particularly delivered wholesalers, specialist wholsalers and to a lesser extent the

supermarket multiples, provide competitive alternatives for some customers in some parts of the market, and we took this into account in our competitive assessment.

8. As part of this assessment, we considered the demand side of the market in more detail and whether the market can be segmented by reference to three categories of customer: caterers; retailers; and 'other traders'. We concluded that demand can be segmented in this way and that it is the catering and retailing sections of the market that are affected by this transaction.

9. We also considered the supply side of the market and whether the market can be segmented by distribution channel into sales via 'cash-and-carry' stores, where customers visit the supplier's premises, and sales by delivered wholesalers which deliver the goods to the customer. We thought it unlikely that there is a substantial captive cash-and-carry customer group of any scale or substance that could be exploited through price discrimination strategies and concluded that although the market should be segmented this way, nonetheless national delivered operators, significant regional and local cash-and-carry and delivered wholesalers and specialist wholesalers potentially impose a significant competitive constraint on the parties.

10. We considered the appropriate scope of the geographic market. We found that the parties predominantly control price, quality, range and service centrally. Our analysis showed that at any point in time less than 5 per cent of sales are at prices that differ from the national/central pricing level. We found that there is evidence of some local variation in the parties' pricing and that there was also evidence of local pricing by third parties. We therefore concluded that there were both national and local dimensions to competition. With regard to delivered operators, we found that they covered a wider catchment from their depots than is typically covered by the parties' cash-and-carry stores. However, the distances covered by delivered operators varied. We therefore analysed the constraint from delivered operators on a case-by-case basis as part of our analysis of local markets.

11. In our assessment of competitive effects, we first examined the impact of the merger on national competition. We concluded that an SLC at a national level was not likely, particularly given the relatively small size of Makro at the national level, and hence the minimal increment to Booker's share of the national market implied by the transaction.

12. We assessed the impact of the merger on local competition. We first identified local areas, based on a 30-minute drive-time (isochrone) from a Makro store, where the transaction would result in a reduction of cash-and-carry wholesaling fascias. We then applied a number of filtering rules to these areas and identified 18 areas out of the 29 overlap areas that were of potential concern and therefore justified more detailed analysis. After further assessment of the individual characteristics of these 18 areas we found that:

*(a)* all areas were served by major delivered operators providing service to both the retail and catering segments; and

*(b)* in all areas but one, another major national or regional cash-and-carry operator remained that provided either full or partial overlap of the parties' customers alongside the major delivered competitors. In the remaining area, we considered that the constraint offered by the delivered operators was sufficient and that there were no barriers to further expansion.

13. On this basis, we concluded that there is not likely to be an SLC in any of the 18 local areas identified.

14. Overall, based on our assessment of the competitive effects of the merger, we concluded that the merger has not resulted, and may not be expected to result, in an SLC within any market or markets in the UK for goods or services.

# Findings

## 1. The reference

1.1 On 8 November 2012, the OFT referred the completed acquisition by Booker of Makro to the CC for investigation and report. The reference was made under section 22(1) of the Enterprise Act 2002 (the Act).

1.2 We must decide:

- whether a relevant merger situation has been created; and
- if so, whether the creation of that situation has resulted, or may be expected to result, in an SLC within any market or markets in the UK for goods or services.

1.3 Our terms of reference are set out in Appendix A. We were required to take our final decision by 24 April 2013.

1.4 This document, together with its appendices, constitutes our final report which we are required to publish under section 38(1) of the Act. Further information, including non-commercially-sensitive versions of the parties' submission and summaries of evidence from third parties, and our provisional findings published on 14 March 2013 can be found on our website.[1]

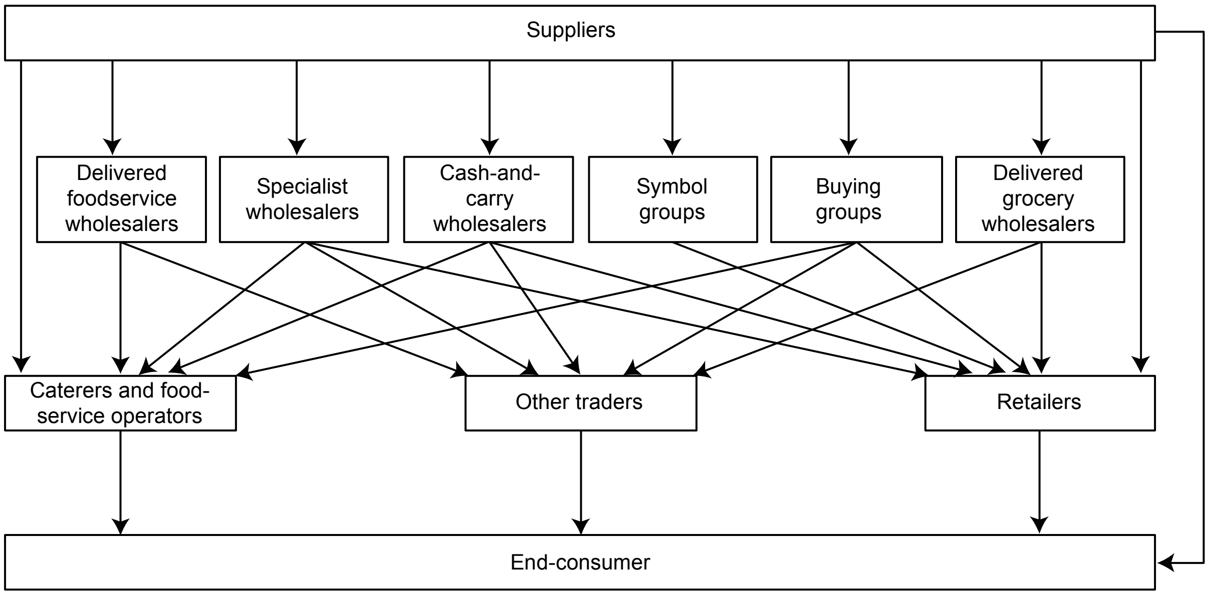
## 2. Industry background

2.1 Wholesalers sell products, often in large quantities, to business customers. Grocery wholesalers bring suppliers of grocery and related non-grocery products together with retailers, caterers and other traders[2] who sell these products directly to the end-consumer (retailing), use the products to manufacture goods which are sold on to the end-consumer or consume the products within their business. In addition to the core activity of selling products in large quantities, wholesaling also includes warehousing, transportation, product consolidation and inventory management.

[1] www.competition-commission.org.uk/our-work/booker-makro.
[2] The term 'other traders' is used to include both small companies and offices (SCO) and personal business users.

FIGURE 1

**Overview of supply channels in the grocery and related non-grocery wholesaling market in the UK**




*Source:* CC analysis.

### *Relationship between suppliers and wholesalers*

2.2 Wholesalers provide suppliers with a route to market. The ability of wholesalers to secure favourable purchasing terms from suppliers depends on the capacity of the wholesalers to purchase on a large scale, demonstrate growth, show a good financial standing and offer suppliers a good service.

2.3 Large national wholesalers are able to achieve the required scale on their own. Small and medium-sized wholesalers can join buying groups[3] to secure improved purchasing terms through the centralization of procurement functions, effectively replicating the purchasing power of the large wholesalers.

### *Types of wholesalers*

2.4 Based on Figure 1, we identified six ways for suppliers to get their products to the market. These are cash-and-carry wholesalers; delivered grocery and foodservice wholesalers; specialist wholesalers; symbol groups;[4] buying groups;[5] and direct supply.[6]

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[3] A buying group is an affiliation of several grocery wholesalers established to obtain more favourable terms from suppliers than each wholesaler could achieve individually.
[4] A group of convenience stores, some of which may operate under a franchise arrangement, and trade under a common fascia (symbol) (eg Spar, Costcutter).
[5] Affiliation of several grocery wholesalers established to obtain more favourable terms from suppliers than each wholesaler could achieve individually.
[6] Further detail on the types of wholesaler are set out in Appendix B.

## *Current market trends*

2.5 The Institute of Grocery Distribution (IGD)[7] identified the following trends in the development of the grocery and foodservice market in the UK:[8]

*(a)* an increasing focus on delivering price and value through price monitoring, credible budget alternatives, such as own-label products, and promotional activity;

*(b)* increasing customer engagement through increasingly flexible, lower-cost symbol group membership and increasing communication and support—for example, Musgrave Group plc (Musgrave) launched a 'symbol lite' package of its Londis symbol group in 2011, which requires fewer investment and trading commitments;

*(c)* building capabilities through increased ranges and increasing the number of specialisms offered to serve customers better—Booker's acquisition of Ritter Courivaud and the trading business and assets of Classic Drinks is a recent example;

*(d)* further developing the online and digital offering to widen catchment area and increase price transparency—new online services, such as Asda Business, may be a threat to incumbent players, targeting a range of business needs with bulk packs supported with a delivery service;[9] and

*(e)* private-label development to allow wholesalers to tailor products to specific customer requirements.

# 3. The companies

## *Booker Group PLC*

3.1 Booker has been a wholesaler of food and non-food products since 1956.[10] It has been listed on the London Stock Exchange since July 2009.

3.2 Booker is the largest cash-and-carry wholesaler in the UK. It currently operates through two business units—Booker Wholesale and Booker Direct. Booker Wholesale comprises 172 cash-and-carry branches, and offers a free delivery service from 163 of these stores. The Booker Wholesale business also includes Premier, Booker's symbol group that was established in 1994;[11] There are over 2,700 Premier branded stores in the UK. The Booker Direct unit offers delivered wholesale. This has been recently expanded through the acquisitions of Ritter Courivaud[12] and the trading business and assets of Classic Drinks[13] in October 2010 and the launch of Chef Direct[14] in June 2012. Booker currently lists a total of over 18,000 products, comprising extensive ranges of branded and own-label grocery, fresh and frozen food, beers,

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[7] A research organization focusing on the UK grocery industry.
[8] *UK Grocery and Foodservice Wholesaling 2011*, IGD, October 2011.
[9] *UK Grocery and Foodservice Wholesaling 2013—Sector performance, statistics and forecasts*, IGD, December 2012.
[10] Further details on Booker's recent financial performance is set out in Appendix C.
[11] Membership of the Premier symbol group gives a convenience store a subsidy for the fit-out of the store's fascia, signage and other imagery in return for a minimum spending contract with Booker.
[12] Ritter Courivaud is a specialist fine foods supplier to restaurants, hotels and contract caterers throughout the UK. It operates from five branches and also has operations located within Booker's cash-and-carry branches in Brighton and Avonmouth, allowing customers to purchase products on either a delivered or collect basis.
[13] A specialist on-trade wholesaler, supplying BWS and soft drinks to pubs, bars and licensed premises. Classic Drinks operates from nine Booker cash-and-carry branches.
[14] Booker's catering and food service arm, serving customers, such as Aramark and Loch Fyne restaurants.

wines and spirits (BWS), tobacco and a limited range of non-food items.[15] Tobacco is Booker's largest product category by sales, representing [✄] per cent of total sales, followed by grocery ([✄] per cent) and BWS ([✄] per cent).

3.3 On 1 November 2005, Booker appointed a new Chief Executive Officer and management team. The business had been experiencing financial difficulties and so this team began to implement a turnaround plan. This plan has been successful. Since 2006 Booker's sales have grown by £820 million, of which £560 million has been from delivered sales and the remaining £260 million from cash-and-carry sales. In the financial year ended 31 March 2012 Booker's total sales were £3.9 billion, an increase of 9.4 per cent from the previous financial year.

### *Makro Holding Limited*

3.4 Makro entered the UK wholesale market in May 1971,[16] at which time it was owned by SHV Holdings, a Dutch company. It was acquired in 1998 by Metro, a German-based international wholesale and retail operator.

3.5 Makro was the fourth largest cash-and-carry wholesaler in the UK. It operated 30 stores across the UK, one of the stores being in Belfast. Makro operated a primarily cash-and-carry wholesale business, with a small delivered service that was introduced in 2009. Unlike Booker, Makro offered a broad range of non-food items such as stationery and office equipment, furniture and furnishings, catering and cleaning equipment, clothing, general maintenance products and electrical appliances. These comprised [✄] per cent of total sales by value. Grocery and BWS represented [✄] per cent and [✄] per cent of total sales respectively. Tobacco was a key product category for Makro (representing [✄] per cent of total sales). Like-for-like tobacco sales declined by [✄] per cent since the ban on the display of tobacco products introduced in April 2012, which applies to large retailers and also to wholesalers that sell tobacco to the public.

3.6 Makro's recent history was one of poor financial performance—it had been loss-making since 2006. In the financial year ended 31 December 2011, total sales of the collect business were £[✄] million, representing [✄] per cent of total sales. Total sales were £766.2 million with an operating EBIT of –£29.6 million. In the financial year ended 31 December 2012, Makro's total sales were £[✄] million with an operating EBIT of –£[✄] million.

## 4. The merger

### *Outline of merger situation*

4.1 Booker met with Metro in [✄] to discuss the acquisition of Makro, including possible deal structures and strategic opportunities. In March 2012 Booker agreed in principle to adopt a deal structure proposed by Metro in which Makro properties were valued at £[✄] million. Metro agreed to inject around £[✄] million for capital investment as a part of the deal.

4.2 Pursuant to a sale and purchase agreement between Metro Cash & Carry International Holding BV (MCCI), Metro and Booker, dated 30 May 2012, Booker acquired the entire issued share capital of Makro.

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[15] A typical Booker branch sells about 8,500 of these products.
[16] www.makro.co.uk/public/uk/Home/About+Makro.

4.3 The transaction was approved by Metro's supervisory board and Booker's shareholders on 29 May and 2 July 2012 respectively and completed on 4 July 2012.

4.4 The consideration for the transaction was £139.7 million, which comprised the following: Booker issued to MCCI new shares representing 9.99 per cent of Booker's total issued share capital with a value of £123.9 million based on the market price of the shares at the close of business on 29 May 2012; and a cash consideration of £15.8 million. The cash element of the transaction was financed from Booker's existing cash reserves.

### *The rationale for the merger*

4.5 Metro told us that [✂].[17,18]

4.6 Booker said that the acquisition of Makro provided it with the knowledge, brand and product range to allow it to:

*(a)* service the needs of Small Companies and Offices (SCOs) using Booker's existing infrastructure;

*(b)* offer a better-value and larger product set to both Booker and Makro customers;[19]

*(c)* use its Internet capabilities to develop an SCO offer;

*(d)* use its increased purchasing power to buy products at better prices, to reduce overheads and achieve efficiencies in logistics;

*(e)* increase its capacity to grow a delivered wholesale service option by using space in Makro branches; and

*(f)* enable international sourcing of products through Booker's relationship with Metro.

4.7 Booker told us that it did not intend to close any of the existing Makro stores. In some locations where there are both Booker and Makro sites, the smaller Booker store might be 'folded into' the larger Makro premises when the opportunity arose.

4.8 Booker estimated that the transaction would create a number of merger-specific efficiency savings that it would pass on to its customers in the form of lower prices. In summary, the parties claimed the following merger-specific efficiencies.

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[17] These amounted to £[✂] million between 2007 and 2011 and resulted in significant negative cash flow during the same period.
[18] Details are set out in Appendices B and C.
[19] Makro typically sells 27,000 stock-keeping units (SKUs) from each of its 30 stores, whereas Booker typically sells 8,500 SKUs from each of its 172 stores.

TABLE 1 **Merger-specific efficiencies**

| *Claimed benefit (2015)* | *£m* |
|---|---|
| Buying benefits | [✄] |
| Improved fresh offer (margin benefit) | [✄] |
| Central savings | [✄] |
| Combine supply chains | [✄] |
| Fixed cost saving in ten Booker branches | [✄] |
| Total | [✄] |

*Source:* Booker.

4.9 In addition to those set out above, the parties submitted that further synergies were likely to arise, in particular from buying-benefits arising from collaboration with Metro (£[✄] million), and central/supply chain benefits (£[✄] million) that were anticipated post-2015. The parties submitted that the supply chain benefits were in effect a vertical integration benefit given that Booker had an integrated distribution system. This meant that some scale and scope benefits would arise due to the presence of fixed costs within the distribution system that would then be spread over larger volumes of goods. The parties submitted that the benefit would amount to a cost reduction of around [✄] per cent of Makro's sales.

4.10 The parties submitted that the detailed analysis showing the potential for £[✄] million of variable costs savings were conservative and that ultimately variable cost savings were likely to be in the range of £[✄]–£[✄] million.

## 5. Jurisdiction

5.1 Under section 35(1) of the Act and our terms of reference (see Appendix A), the CC is required to decide whether a relevant merger situation[20] has been created such that:

*(a)* two or more enterprises have ceased to be distinct within the statutory period for reference; and

*(b)* either the turnover test or the share of supply test is satisfied.

### *The statutory period for reference*

5.2 Section 24 of the Act states that a reference to the CC must be made within four months of the enterprises ceasing to be distinct, or of material facts about the transaction being made public or given to the OFT. However, section 25(2) of the Act gives the OFT power to extend this period in order to obtain relevant information, and the statutory period for making the reference was extended to 25 November 2012. The reference was made by the OFT to the CC on 8 November 2012.

### *Enterprises ceasing to be distinct*

5.3 The Act defines an 'enterprise' as 'the activities, or part of the activities, of a business'. 'Business' is defined as including any 'undertaking which is carried on for gain or reward or which is an undertaking in the course of which goods or services are supplied otherwise than free of charge'.[21]

[20] As set out in section 23 of the Act.
[21] Section 129(1) and (3) of the Act.

5.4 Booker and Makro are both wholesalers, supplying a range of food, drinks, grocery and non-food products—see paragraphs 3.1 to 3.6. We are satisfied that Booker and Makro are 'enterprises' for the purposes of the Act.

5.5 We are also satisfied that, since Booker has acquired the entire issued ordinary share capital of Makro, both enterprises have ceased to be distinct from one another, as described in section 26 of the Act.

### *Turnover or share of supply tests*

5.6 In considering whether a relevant merger situation has been created, the Act requires the CC to establish that the transaction has a sufficient nexus with the UK. This will be the case if either the 'turnover test'[22] or the 'share of supply test'[23] is satisfied. The turnover test is met where the annual value of the UK turnover of the enterprise being acquired exceeds £70 million. In the year ended 31 December 2011, Makro generated revenue of £787.4 million, all of which was generated in the UK.[24] Therefore, the turnover test is satisfied and there is no need also to consider the share of supply test.

5.7 For the reasons given above, we are satisfied that a relevant merger situation has been created by the acquisition of Makro by Booker and we have jurisdiction to consider whether the creation of that situation has resulted or may be expected to result in an SLC within any market or markets in the UK for goods or services.

## 6. Counterfactual

6.1 Consideration of whether the merger may give rise to an SLC involves a comparison of the prospects of competition with the merger against the competitive situation without the merger. The latter is called the 'counterfactual'.[25] Our Merger Assessment Guidelines[26] (the Guidelines) explain that we may examine several possible counterfactual scenarios based on evidence obtained during the course of our inquiry. The CC will then select the most likely scenario absent the merger which may or may not be the continuation of the pre-merger situation. The Guidelines note that 'the CC will typically incorporate into the counterfactual only those aspects of scenarios that appear likely on the basis of the facts available to it and the extent of its ability to foresee future developments'.[27]

6.2 In order to assess the appropriate counterfactual, we considered whether, in the absence of the merger, Makro would have been most likely to exit the market or whether the Makro business or stores would have been bought by another cash-and-carry wholesaler.

6.3 Booker expressed the view that, with the exception of one or two of the profitable stores, notably Charlton, the Makro stores would have been sold by a distressed business specialist to non-food wholesale buyers. These buyers would have closed down the Makro business and sold the stores, in order to maximize the property proceeds, given that the land value would be higher in an alternative use. As such, Booker would have expected Makro to exit the market.

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[22] Under section 23(1)(b) of the Act.
[23] Under section 23(2)(b) and 23(3) and/or (4) of the Act.
[24] Booker Group plc Regulatory Announcement dated 30 May 2012: http://otp.investis.com/clients/uk/booker/rns/regulatory-story.aspx?cid=240&newsid=252038.
[25] *Merger Assessment Guidelines, CC2*, paragraph 4.3.1.
[26] The Guidelines, paragraphs 4.3.1 & 4.3.7.
[27] The Guidelines, paragraph 4.3.6.

6.4 As set out in the CC's guidelines, under the exiting firm scenario, we consider:

*(a)* whether Makro would have exited (through failure or otherwise); and, if so,

*(b)* whether there would have been an alternative purchaser for Makro or its assets; and

*(c)* what would have happened to the sales of Makro in the event of its exit.[28]

6.5 Our analysis of *(a)* and *(b)* is summarized below and further detail of *(a)*, *(b)* and *(c)* is provided in Appendix G.

## *Would Makro have exited the market?*

6.6 Based on an analysis of the financial information available, [✂], it appears unlikely that the Makro business would have returned to profitability in the short to medium term. Therefore Makro would have continued to be reliant on the financial support of Metro. [✂] This suggests that Metro would have tried to exit the UK market through another sale process if the acquisition of the Makro business by Booker had not taken place.

6.7 We need to consider how long Metro would have continued to support the Makro business before closing it and selling the real estate in the event that an alternative buyer for some or all of the business had not come forward. The choice for Metro would have been between continuing to support a turnaround strategy that was not meeting the required targets, and [✂], and we think this would have been a significant factor in Metro exploring all possible divestment opportunities prior to closure.

6.8 Absent any other purchasers wishing to buy the business as a going concern, we thought it unlikely that Metro would have taken further decisions regarding Makro until at least early 2013. This would have allowed for the impact of Christmas and the New Year trading to have become clear.[29]

6.9 It is difficult to judge the most likely outcome after the end of 2012, but we formed an expectation that, given the results to January 2013, Metro would have been most likely to have considered the closure options very seriously if there were still no other interested purchasers for some or all of the Makro business.

## *Would there have been an alternative purchaser for Makro or its assets?*

6.10 The assessment of whether a purchaser other than Booker would have acquired the Makro business or its assets is complicated by the absence of a competitive bidding process for Makro. We considered whether there would have been an alternative purchaser for either the entire Makro business or alternative purchasers for some or all of its assets.

6.11 We consider it unlikely that another wholesaler would have acquired the entire Makro business:

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[28] The Guidelines, paragraph 4.3.8.

[29] Makro's recent performance is stable and the business is generating positive cash flows due to working capital movements. However, the business continues to be loss-making.

(a) Bestway Cash & Carry Limited (Bestway)[30] would have been an unlikely alternative purchaser, [✂].

(b) Costco Wholesale UK Limited[31] (Costco) would have been unlikely to purchase the entire Makro business [✂].

(c) The regional wholesalers would not have had the necessary scale to purchase the entire Makro business.

6.12 Cash-and-carry wholesalers would most likely have only been interested in some of the Makro stores. Consequently we decided that the only alternative to Booker as a purchaser for the entire Makro business would have been a distressed business specialist.

6.13 We therefore found that Metro would have been faced with a choice between a sale to a distressed business specialist and a sale of individual Makro stores to a number of purchasers. The latter scenario would have been most likely to result in several transactions for different stores. This may have involved Costco, Bestway and other parties. It is unclear whether this scenario would have generated a higher NPV than the sale of the entire business to a distressed business specialist as we consider that under this scenario it is likely that some assets would have remained unsold.

6.14 In our view, Metro would have been likely to take the quickest exit route. We therefore decided that it is most likely that Metro would have sold Makro to a distressed business specialist. However, we consider that each of Metro's two options would have been likely to deliver a broadly similar outcome in fact. This is because we expected that a distressed business specialist would divest individual stores, including some to wholesalers and some to non-wholesalers. We therefore considered whether other wholesalers would have bought certain stores as part of our local area analysis. These outcomes determine what would have happened to the sales of Makro in relevant local areas. The detail of this analysis is set out in Appendix G.

## 7. Market definition

7.1 In this section, we assess the relevant market definition for analysing the merger. The Guidelines[32] state that the purpose of market definition in a merger inquiry is to provide a framework for the analysis of the competitive effects of the merger. The Guidelines go on to state that the CC will identify the market within which the merger may give rise to an SLC, and that this will include the most relevant constraints on the behaviour of the merger firms.

7.2 The Guidelines also note that, in practice, the analysis leading to the identification of the market or markets and assessment of competitive effects will overlap, with many of the factors affecting market definition being relevant to the assessment of competitive effects and the other way around.[33]

7.3 We begin by considering the product market, followed by our views on customer segmentation of the market. We then consider whether the market should be further segmented by distribution channel (into cash-and-carry and delivered segments) and finally assess the geographic market.

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[30] A national cash-and-carry wholesaler.
[31] A national cash-and-carry wholesaler.
[32] Paragraph 5.2.1.
[33] Paragraph 5.1.1.

### *Product market*

7.4 Booker and Makro overlap in the provision of cash-and-carry services. Cash-and-carry services are the wholesale channel that involves customers visiting a wholesaler's store to select and collect goods, typically for resale in a retail outlet or to be used as an input in catering. Booker also delivers goods directly to customers. Makro's involvement in delivered wholesale is very limited.

7.5 Unlike the retail channel, wholesalers typically only trade with business customers. They supply retailers, caterers and other customers with:

*(a)* grocery products (for example, meat, canned goods and alcoholic products);

*(b)* related non-grocery products (for example, disposable cutlery and cleaning equipment); and

*(c)* unrelated non-grocery products (for example, televisions and washing machines).

7.6 The majority of these products are sold in 'bulk' format, for example a case of baked beans as opposed to a single tin. The majority of goods are sold in bulk from warehouse premises with lower costs of display and stocking than those of retail supermarkets dealing with product sold in (relatively) small quantities. In addition, unlike retail, customers often have the option of credit facilities.

7.7 In the UK, there are four national cash-and-carry operators—Bestway, Booker, Costco and Makro—and a number of significant local and regional operators including A G Parfett & Sons Limited (Parfetts) in the North-West, Dhamecha Foods Limited (Dhamecha) in London and United Wholesale Grocers (United) in Glasgow. The major delivered wholesalers include Brake Bros (Brakes), BFS Group Limited (trading as 3663), Palmer & Harvey McLane Limited (Palmer and Harvey), Musgrave and JJ Food Service (JJ).

### *Segmentation by product, customers and competitors*

#### *Product-based segmentation*

7.8 The parties told us that Booker and Makro supplied grocery and grocery-related products to a range of businesses. The parties argued that the market was diverse in terms of suppliers, and that specialists were present in different product categories (eg BWS), and that these should be included in our competitive assessment.

#### *Unrelated non-grocery products*

7.9 In this and the following subsection, we outline our views on segmentation between grocery and unrelated non-grocery products. Unrelated non-grocery products are non-grocery products (for example, electrical appliances and stationery) that are not sold as complements to grocery products (unlike, for example, disposable cutlery and plates for caterers).

7.10 We analysed the SKU data provided by Booker to assess the availability of different product types. This analysis showed that fewer than [✂] per cent of Booker's SKUs were attributable to unrelated non-grocery products.[34] Furthermore, we found limited

[34] Based on the data, we consider Booker's unrelated non-grocery product categories to comprise: business and stationery; electrical and household; paper products; and workplace/janitorial.

mention of unrelated non-grocery products in the internal documents provided by Booker.

7.11 The parties told us that 30 per cent of Makro's sales related to non-food items which were not sold by Booker. In addition, Makro's documents suggested that Makro's main competitors in the area of unrelated non-grocery products did not include Booker. For example, one report stated that for the SCO customer group, 'Staples, Viking Direct and Costco are Makro's main three competitors'.

7.12 We therefore found very limited overlap between the parties in unrelated non-grocery products. On this basis, we do not consider this segment further in the analysis.

### *Grocery and related non-grocery*

7.13 We have considered segmenting grocery and related non-grocery products. However, the parties overlap in these markets, and customers will often source both sets of products (for example, bacon rolls and napkins) from the same supplier. Our conclusion is that we should not segment the market in this way.

7.14 We considered whether to segment the market further into product groups where specialists operate, for example BWS or tobacco. However, the parties and their closest competitors compete across a range of products, and this is a fundamental part of their competitive strategy. Having a broad range of products consistently ranks highly in the customer surveys provided to us by the parties, and regularly features in the parties' strategy documents. For these reasons, we decided not to segment the market in this way. In our competitive assessment, we recognized that the existence of specialist wholesalers can mean that competitive pressures vary by product segment, and we took specialists into account in local areas where identified as relevant competitors.

### *Customer segments*

7.15 We looked at the merger parties' customer types in order to determine whether the relevant market should be segmented by customer type. The parties told us that they served three categories of customer:

*(a)* retailers—mainly independent convenience stores;[35]

*(b)* caterers—including hotels, restaurants, public houses and takeaways; and

*(c)* other traders—such as office kitchens and tradesmen.

7.16 The parties told us that it was appropriate to omit 'other' traders, ie small business and office users, from our analysis due to the lack of competitive overlap between the parties. This is consistent with the analysis above showing that Booker has very limited presence in this segment of the market.

7.17 A review of the parties' internal documents and data showed that there is a consistent distinction made between catering and retailer customers. At a high level, this is consistent across:

*(a)* promotional documentation for both parties;

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[35] These include symbol group retailers that are a group of convenience stores, some of which may operate under a franchise arrangement, and trade under a common fascia (symbol) (eg Costcutter, Londis).

*(b)* national strategy documentation for both parties;

*(c)* local level reporting for both parties; and

*(d)* customer data allocation (Booker only[36]).

7.18 As we note below, there is significant evidence that the customers in these two segments are served by different wholesale competitors. This in itself supports the view that the competitive analysis should be segmented between retailers and caterers.

7.19 Industry surveys conducted by a number of different research companies also separate customers into retail and catering classifications. The Harris International Marketing survey evidence points towards there being some differences in the elements of price, quality, range and service (PQRS) that the different customer types deem important. We investigated this further in our competitive assessment (paragraphs 8.9 to 8.17).

7.20 The evidence provided by the parties, and analysed in Appendix F, shows that there is a significant proportion of goods that both caterers and retailers purchase from a cash-and-carry operator. However, our view is that there are certain products which will mainly be purchased by only one of these groups of customers, whether this is due to pack sizes (for example, a 20-litre drum of oil) or price-marked products (for example, Booker's Euro Shopper range).

7.21 The parties also supplied promotional documentation showing that offers are targeted at the different customer types. We also found that some competitors source the vast majority of their revenue from only one of these customer groups. As a result, we took into account potential differences between retailers and caterers in our analysis.

7.22 Our conclusion is that customer groups are not separate relevant markets.

### *Market segmentation by channel*

7.23 We considered if the market should be segmented by supply channel. The cash-and-carry business model differs from that of a delivered wholesaler—in the cash-and-carry market the customer visits the wholesaler's store, whereas delivered wholesale involves the wholesaler delivering directly to the customer's premises. Like cash-and-carry, delivered wholesale also provides products suitable for both retailers and caterers (the latter is often described as 'delivered foodservice').

7.24 The parties stated that it was not appropriate to segment the wholesale market by channel, ie delivered wholesale from cash-and-carry. They told us that the relevant market should include all supply channels, and that there was overwhelming evidence of multi-sourcing across channels by their customers. Furthermore, they told us that customers had different preferences independent of their type of business. Finally, they told us that delivered wholesale and cash-and-carry constrained each other on price.

7.25 We were told by Metro that Makro's provision of a delivered service in 2008 was recognition of the shift in focus of the wholesale and retail markets from cash-and-

[36] We note that for Booker, customers are segmented as 'Trade—Retail', 'Trade—Caterer' and 'Other'. However, Makro does disaggregate its customers into further sub-categories. By way of example, for caterers this includes (but is not limited to) canteens, fast food and restaurants.

carry to delivery due to increasing customer demand for an effective and comprehensive delivery service. Booker began to expand its delivery service in 2005 following the appointment of new management.

7.26 The parties supplied data on the revenues attributable to their collect and their delivered offerings. The results are presented in Table 2.

TABLE 2 **Revenue across channels**

| | *Total revenue (£m)* | |
|---|---|---|
| | *Collect* | *Delivered* |
| Makro (FY 2011) | [✂] | [✂] |
| Booker (FY 2012) | [✂] | [✂] |

*Source:* CC analysis of parties' data.

7.27 Table 2 shows the difference in the parties' revenue attributable to delivered wholesaling. Delivered wholesaling accounts for a much larger proportion of Booker's revenue that it does for Makro's.

7.28 In addition to the constraint imposed on cash-and-carry wholesaling by delivered operators, the parties argued that the multiple retailers were a significant source of supply and a competitive alternative for many of their customers. They pointed to evidence from the GfK survey commissioned by Booker, which showed that 'half of customers would use supermarkets'.

7.29 We consider the potential for delivered operators, supermarket multiples and other operators to provide a competitive constraint on the parties in our competitive assessment in Section 8 and Appendix F.

7.30 On the basis of the analysis contained in these sections of our findings, we concluded that the relevant product market for us to consider in this case is the wholesaling of grocery and related non-grocery products. The product market is for cash-and-carry wholesaling but is significantly constrained by other forms of wholesaling in local markets where these are present. This conclusion was supported by:

*(a)* significant evidence of the mixed use of delivered and cash-and-carry sources suggesting that significant volumes would be lost from cash-and-carry to delivered competitors if a hypothetical monopolist of cash-and-carry services in a local area attempted to increase prices by a small (but sustained and non-transitory) amount; and

*(b)* a limited likelihood that there is a significant number of captive cash-and-carry customers that could be exploited through price discrimination strategies. This assessment was supported by evidence that:

(i) the price-concentration analysis, which suggests that there was only a limited profit gain to Booker in areas where Booker currently faces little or no local cash-and-carry competition; and

(ii) customers with smaller purchases that were 'cash-and-carry only' would be difficult to discriminate from, for example, larger customers who could readily switch to a delivered service.

7.31 We did not include other supply channels in our market definition. However, we recognize that other supply channels, particularly specialists and to a lesser extent the supermarket multiples, exert competitive constraints for some customers in some parts of the market, and we take this into account in our competitive assessment.

### *Geographic market*

7.32 We were told by Booker that it competed nationally and made decisions relating to PQRS centrally. It told us that nearly all promotions and discounts were applied nationally, with some minimal exceptions. It told us that it [✂].

7.33 Makro also told us that its pricing was set centrally. However, it acknowledged that competition was monitored locally, and prior to November 2012 there was a tool in place for local stores to apply for price adjustments for select products.

7.34 We found that third parties predominantly viewed the market as competing at the local level. Many of the parties' cash-and-carry competitors operate central pricing with adjustments in prices or reactive promotions made at the local level where necessary. For example, Bestway provided us with examples of reacting to local competitors' promotions by offering its own promotions on the same or substitute products. It also told us that there was local variation across other aspects of competition, including differing charges for delivery or rebates at the local level.

7.35 We found that delivered operators exhibited a wider variety of pricing strategies, with some pricing nationally, others pricing regionally, and others having customer-specific pricing. National customers tended to receive uniform prices across all regions.

7.36 The price-concentration analysis we conducted indicated that different local areas have different margins, and that the presence of additional local competitors has some (albeit limited) effect on overall store margins—implying that there are some local dimensions to competition. We also observed that there is variation in range across different regions, and that opening hours also vary by location.

7.37 We conducted an analysis of the parties' price data to assess the importance of local pricing. The results of our analysis suggest that there is some relatively limited local variation in prices, more so for Booker than for Makro. We found that for Booker's top-selling retail products sold at non-promotional prices, around [✂] per cent by value were sold at non-standard prices in some stores. This increased to around [✂] per cent for top-selling catering products. [✂]

7.38 In Makro's data, we found that for top-selling retail products sold at non-promotional prices, around [✂] per cent were sold at local prices. The equivalent figure for the top-selling catering products was [✂] per cent. Where Makro stores had local variation, this tended to be at lower than list prices. However, we acknowledge that the creation of the Makro national list price on which our analysis was based was significantly more complicated than that of Booker's due to differences in data, and that the results are likely to overstate systematically the actual level of local price variation.

7.39 Whilst we found that many competitive variables are set centrally by the parties, the overall evidence base suggested that there is a local dimension to competition in the grocery wholesaling market. The parties predominantly controlled PQRS centrally and the analysis showed that at any point in time the majority of sales were sold at national/central prices. Nonetheless, there was some regional and local variation in pricing.

7.40 The evidence suggested that wholesalers have the ability to respond to price, promotions and other variables at the local level and prices can and do vary by region. We therefore looked at the effect of the merger at both the national and local level.

7.41 We considered the implications of the hypothetical monopolist (HM) test for the definition of the local geographic markets in this case.[37] The HM test considers the (hypothetical) question of what constraints a local monopolist of wholesale groceries would face if it increased price by a small but significant amount for a sustained period. A candidate geographic market will fail the hypothetical monopolist test, and will be too narrow to comprise the relevant market, if customers would respond to the price rise by switching to suppliers outside the HM's supply to such an extent that the price increase by the HM would not be profitable.[38] In this case, the narrowest market satisfied by the HM test depends on the local characterics of the market, and the competitive alternatives available to the customers in the particular local area. We concluded that we should look at the particular local areas affected by the merger (the overlap areas), and analyse the actual alternatives available to customers of the parties in that area.

### *Conclusion on market definition*

7.42 The parties overlapped in the wholesale supply of grocery and related non-grocery products. Our conclusion is that the cash-and-carry wholesale supply of grocery and related non-grocery products constitutes the relevant product market. We recognize that other supply channels, in particular delivered wholesale, provide material constraints on cash-and-carry wholesalers, and that specialist wholesalers, and to a lesser extent the supermarket multiples, exert some relevant competitive constraints. We further recognize that retail and catering customers will often have different competitive alternatives available to them. We took these factors into account in our competitive assessment.

7.43 The geographic market has both national and local dimensions. With regard to delivered operators, we concluded that they typically covered a wider catchment from their depots than is covered by the parties' cash-and-carry stores. However, the distances covered by delivered operators vary by operator. We also found that there is some evidence of local competition based on price and other service quality factors. We therefore conducted our analysis of the market at both the national and local levels. Our approach to assessing the geographic coverage of cash-and-carry and delivered operators is contained in the following section on the assessment of competitive effects, and in Appendices E, F and H.

## 8. Assessment of the competitive effects of the merger

8.1 In this section we assess the competitive effects of the acquisition and consider whether the merger may be expected to result in an SLC within the wholesale grocery market in the UK.[39]

8.2 We first consider the way that cash-and-carry wholesalers compete in the market. We then assess the effects of the merger, first at a national level, and then at the local level.

[37] The Guidelines, paragraph 5.2.9.
[38] ibid, paragraph 5.2.10.
[39] Section 35 of the Act.

### *The wholesale grocery market*

8.3 We analysed the nature of competition in the market. The analysis covered:

*(a)* pre-merger competition in the cash-and-carry wholesaling market;

*(b)* customer behaviour;

*(c)* the constraint from delivered wholesalers;

*(d)* the role of buying groups, specialist wholesalers and supermarket multiple retailers;

*(e)* the results of our price-concentration analysis; and

*(f)* the effect on customers.

### *Pre-merger competition in the cash-and-carry wholesaling market*

8.4 The parties said that they competed against a wider set of competitors than cash-and-carry collect, that customers multi-sourced across a range of channels and that there were no captive cash-and-carry customers.

8.5 We collected evidence from a range of third parties through hearings and formal submissions. Most held similar views to the parties. In particular, all parties held the view that customers multi-sourced. Brakes believed that caterers would use [✂], and JJ told us that price was the main driver of demand and also that customer loyalty was low. Most of the third parties viewed Booker and Makro as competitors to their businesses.

8.6 The parties competed in the cash-and-carry wholesale market across both retail and catering customers, with Makro having an increasing focus on the catering segment.[40] Internal documents show that the parties saw each other as competitors, although Booker monitors a larger number of competitors than Makro.[41] Furthermore, internal documents suggest that Makro saw Booker as a much stronger competitor than the other way around. For example, Makro had carried out customer research specifically benchmarking itself against Booker.[42] This view is supported by the GfK survey evidence and the diversion ratios calculated from it, which show that Booker is more of a constraint on Makro in the retailing segment than the other way around. The evidence is more mixed in the catering segment.

8.7 Both Costco and Bestway considered the parties to be their main competitors, and the parties' price monitoring documents suggest that they are effective competitors on price. We conducted a detailed review of six weeks of Booker's weekly price-monitoring documents. This suggested that when Bestway and Costco were indexed against Booker (ie Booker's pricing being 100) across a range of over 300 tracked products, the index value of the prices of these products ranged between [✂] and [✂]. This shows that Bestway and Costco offer very similar prices to Booker. The

[40] Makro's 2008 annual report notes that Makro was shifting from 'an all things to all businesses' approach to one which is tailored to suit the needs of catering customers. This is noted by Booker in its 2010 report which states that Makro and Costco 'drive into Hotel, Restaurants and Catering'. We then observe from Makro's internal documents that between 2008 and 2011 Makro's sales to catering customers rose [✂] per cent to £[✂] million.
[41] Booker's listed competitors included [✂] for caterers, and [✂] for retailers.
[42] The AlixPartners report gave a greater weight to Booker than Bestway and Costco. When discussing its pricing approach, Makro's internal documents included statements that it [✂]. Furthermore, Makro had a pricing tool to track Booker only, although we note this was recast to include other competitors in March 2012.

GfK survey evidence showed that both catering and retailing customers consider Bestway and Costco to be important sources of supply.

8.8 Overall, the evidence supports the view that Bestway and Costco are close competitors of Booker and Makro in the wholesale cash-and-carry market.

### *Customer behaviour*

8.9 We looked at a number of surveys conducted by research companies. These include surveys conducted by GfK, Harris International Marketing and IMAS, which are all widely-used research companies in the fast-moving consumer goods sector. We used this data to help understand customer preferences. We found that the primary reason given by customers for using cash-and-carry operators was price, whereas for those using delivered operators, the primary factor was convenience.[43] We also observed that in recent years customers are attaching increasing importance to the availability of delivery.

8.10 The Harris International Marketing survey evidence showed that customers in the wholesale grocery market are price sensitive.[44] There is also evidence that the parties' customers are multi-sourcing.

8.11 Data from IMAS suggested that both Makro's caterer and retailer customers are likely to source their demand from a mixture of cash-and-carry operators and delivered operators.[45]

8.12 We conducted analysis of the data on the goods purchased by Booker's customers that used the cash-and-carry (pick-up) and delivered services respectively, and identified the extent to which they purchase similar products. We found that about [✂] per cent of products were present in both baskets, implying that Booker customers using the different channels have broadly similar product demands.

8.13 The surveys suggested that the overall customer base multi-sources across wholesale channels. This includes the national and local cash-and-carry operators, delivered operators and specialists. The GfK survey showed that the parties' customers were already multi-sourcing, as shown in Table 3.

[43] We note that this does not imply that price is unimportant for these customers.
[44] See Appendix F, paragraph 94.
[45] The survey asked Makro's customers where they sourced their goods. For Makro caterers, [✂] per cent stated that they bought all goods at a store against [✂] per cent sourcing all their goods through delivered operators. The remaining [✂] per cent sourced goods across a mixture of delivered and collect channels. For retail customers, [✂] per cent sourced their supply entirely at store against [✂] per cent sourcing solely through delivered operators, leaving [✂] per cent of customers sourcing goods across both channels.

TABLE 3 **Number of suppliers used by survey respondents**

*per cent*

| | *Booker caterer (n=681)* | *Booker retailer (n=463)* | *Makro caterer (n=501)* | *Makro retailer (n=752)* |
|---|---|---|---|---|
| Only 1 supplier | [✂] | [✂] | [✂] | [✂] |
| 2–3 suppliers | [✂] | [✂] | [✂] | [✂] |
| 4–5 suppliers | [✂] | [✂] | [✂] | [✂] |
| 6–10 suppliers | [✂] | [✂] | [✂] | [✂] |
| 11–20 suppliers | [✂] | [✂] | [✂] | [✂] |
| More than 20 suppliers | [✂] | [✂] | [✂] | [✂] |

*Source:* CC analysis of GfK data.

8.14 Table 3 showed that over [✂] per cent of Booker's customers and over [✂] per cent of Makro's customers use more than four suppliers, with the majority using between four and ten. Fewer than [✂] per cent of all customers used only one supplier. The Harris International Marketing survey showed that for catering customers surveyed at cash-and-carry premises, on average [✂] per cent of total purchases were derived from delivered operators, whereas for retailers the equivalent figure was [✂] per cent.

8.15 The GfK survey asked customers where they would purchase goods if the store at which they were surveyed was closed for the next six months. We grouped responses into categories in Table 4 below. This shows that both Booker's and Makro's customers were most likely to split the purchases they made at their respective stores across various competitors. The next most likely response for Booker customers was diverting their whole basket to a cash-and-carry operator that was not Makro. Makro was the third preference. For Makro customers, the second most popular option was whole basket diversion to Booker, followed by cash-and-carry operators other than Booker. Around [✂] per cent of Booker's customers and [✂] per cent of Makro's would divert their whole basket to a delivered operator.

TABLE 4 **Customers' diversion of purchases made at the parties**

*per cent*

| | *Booker* | | | *Makro* | | |
|---|---|---|---|---|---|---|
| *Responses* | *Caterers* | *Retailers* | *Whole sample* | *Caterers* | *Retailers* | *Whole sample* |
| Split basket diversion | [✂] | [✂] | [✂] | [✂] | [✂] | [✂] |
| Full basket diversion to: | | | | | | |
| Another store operated by the same party | [✂] | [✂] | [✂] | [✂] | [✂] | [✂] |
| The other party | [✂] | [✂] | [✂] | [✂] | [✂] | [✂] |
| Non-party cash-and-carry | [✂] | [✂] | [✂] | [✂] | [✂] | [✂] |
| Delivered wholesale | [✂] | [✂] | [✂] | [✂] | [✂] | [✂] |
| Specialist food wholesale | [✂] | [✂] | [✂] | [✂] | [✂] | [✂] |
| Specialist non-food | [✂] | [✂] | [✂] | [✂] | [✂] | [✂] |
| Symbol group | [✂] | [✂] | [✂] | [✂] | [✂] | [✂] |
| Supermarket | [✂] | [✂] | [✂] | [✂] | [✂] | [✂] |
| Discount store | [✂] | [✂] | [✂] | [✂] | [✂] | [✂] |
| Uncategorized non-party | [✂] | [✂] | [✂] | [✂] | [✂] | [✂] |
| Don't know | [✂] | [✂] | [✂] | [✂] | [✂] | [✂] |
| Purchase not made | [✂] | [✂] | [✂] | [✂] | [✂] | [✂] |
| Don't know | [✂] | [✂] | [✂] | [✂] | [✂] | [✂] |
| *Base* | *681* | *463* | *1635* | *501* | *752* | *2359* |

*Source:* CC analysis of GfK survey data.

8.16 Evidence of the parties' customers multi-sourcing is illustrated further in the analysis below, which considers the parties' share of spend[46] against the number of fascias[47] operating in a local area where both parties are present. This analysis is based on data taken from the survey conducted by GfK on behalf of the parties.

FIGURE 1

**Share of spend against fascia count**

[✂]

*Source:* CC analysis of GfK survey data.

8.17 Makro's share of customer spend increases only marginally as the number of major cash-and-carry competitors in the local area decreases, increasing from [✂] to [✂] per cent of spend as the number of cash-and-carry competitors decreases from four to one in the local area. This represents a [✂] per cent increase in share of spend for a [✂] per cent reduction in cash-and-carry fascia competition. Booker's share of spend increases from [✂] to [✂] per cent as the number of local cash-and-carry fascias decreases from four to one. This represents a [✂] per cent increase in share of spend for a [✂] per cent reduction in cash-and-carry fascia competition. The analysis is consistent with the view that the presence of competing stores in a local area is relatively unimportant to the parties' share of spend, which is, in turn, consistent with the view that the parties' cash-and-carry stores face a broad set of competitive constraints from delivered and specialist wholesalers.[48]

### *The constraint from delivered wholesalers*

8.18 The parties told us that cash-and-carry wholesalers competed with delivered whole-salers. They said that delivered wholesalers were effective alternatives to cash-and-carry operators for both catering and retail customers. Catering customers were typically served through delivered foodservice operators, whereas retail customers were often served through delivered retail wholesalers. Table 5 summarizes the main delivered operators.

[46] This measure was derived from the question 'Over the last three months, approximately what proportion of your spending on supplies did you source from [Booker/Makro]?'
[47] A grocery retailer or wholesaler brand, for example Asda, Budgens or Booker (ie a geographic area may contain a significant number of stores, but a more limited number of fascias if some of those stores are operated under a common brand).
[48] We cannot be sure whether in answering this question respondents considered their total spend to be only all goods which they could purchase from the parties, or whether their total spend includes all goods they require to operate their businesses. As a result, the level of spend shown may not accurately reflect the parties' actual share of spend. However, this uncertainty should not affect the reliability of the trend information, which is the main point of interest from this analysis.

TABLE 5 **Delivered operators**

| *Operator* | *Type* | *Minimum order requirements* | *Turnover £m* | *Pricing* |
|---|---|---|---|---|
| Brakes | Delivered foodservice | [✂] | [✂] | [✂] |
| 3663 | Delivered foodservice | [✂] | [✂] | [✂] |
| JJ | Delivered foodservice | [✂] | [✂] | [✂] |
| Palmer and Harvey | Delivered retail | [✂] | [✂] | [✂] |
| Nisa Retail Limited | Delivered retail plus symbol | [✂] | [✂] | [✂] |
| Musgrave | Delivered retail plus symbol | [✂] | [✂] | [✂] |

*Source:* Third party evidence, publicly available accounting data and CC analysis.

8.19 We found that delivered wholesalers often differed from the cash-and-carry operators in their approach to pricing, offering a mixture of posted prices and prices set through individual customer negotiations. However, Costco told us that although it was difficult to track the prices of some delivered operators due to negotiated pricing, it was often informed by customers of price differences and would price match accordingly. [✂][49]

8.20 We considered whether delivered operators could be less effective alternatives for smaller customers which may be restricted in their ability to switch because of the minimum drop sizes illustrated above. We were told by Brakes that most professional caterers could 'easily exceed' its minimum level. Only one delivered wholesaler, [Wholesaler A], said that there was no choice for smaller customers other than cash-and-carry operators, and that cash-and-carry wholesaling was distinct from delivered wholesaling.[50]

8.21 The Harris International Marketing survey evidence suggests that customers tend to use delivered operators for convenience. Booker provided a report by Palmer and Harvey that estimated that the annual cost to a retailer of using a cash-and-carry wholesaler was around £2,500, with an additional opportunity cost of around £2,346,[51] which suggests that the additional cost of using a delivered operator needs to be balanced against the costs of time and vehicle running associated with using a cash-and-carry store.

8.22 We conducted a review of internal documents provided by the parties. Booker's three-year plans illustrated that although delivered operators are distinguished from cash-and-carry operators, they are broadly seen as competitors. The main listed delivered competitors for caterers included [✂]. For retailers, they included [✂].

8.23 Third party cash-and-carry wholesalers told us that they were in competition with delivered operators. We were told by Bestway that some customers liked to use cash-and-carry outlets to judge the look and feel of products, something which delivered operators were not able to offer. Bestway told us that cash-and-carry was the

[49] Booker's internal price-monitoring documents show that it has monitored the prices of [✂].
[50] We note, however, that 3663 derives around 50 per cent of its revenue from national accounts, which are typically not competed for by cash-and-carry operators.
[51] The £2,500 figure is calculated by taking the costs of shop cover whilst management are out of the shop (derived from a cashier's hourly wage plus 40 per cent employer costs), car running costs per mile (including petrol and tax) and the cost of not having access to 14 days' interest-free credit. The £2,346 opportunity cost is measured using the cost to the retailer of management being out of the shop (derived by a manager's hourly wage plus 40 per cent employer costs). The calculations are provided at www.palmerharvey.co.uk/press-room/counting-the-cost-of-cash-and-carry/.

cheapest option, and Parfetts told us that delivery cost was a factor in whether to use cash-and-carry operators or delivered services—although it believed that most customers used both services.

8.24 We also spoke to the delivered operators.[52] Brakes told us that it saw Booker as a large competitor, with Makro being a competitor to a lesser extent. JJ also considered the parties as competitors. In retailing, Palmer and Harvey told us that it monitored Booker, Dhamecha and Bestway, but it did not monitor Makro. This is consistent with the parties' views that Makro is a weaker competitor in the retailing segment.

8.25 The GfK survey data showed that [✂] per cent of Makro's customers and [✂] per cent of Booker's customers would consider using delivered wholesalers. It also showed that national delivered wholesalers were seen as more important than Makro for Booker's caterer and retailer customers, and were also important for Makro customers, albeit less so than for Booker's. The GfK survey data showed that fewer than [✂] per cent of the parties' customers would divert all of their purchases made at the Booker or Makro store at which they usually shopped to a delivered wholesaler if the store temporarily closed. However, over a third of the parties' customers would split their purchases made at the Booker or Makro store to multiple suppliers, although it is not clear from the survey whether these split purchases might include significant diversion to delivered wholesalers.

8.26 The GfK survey evidence also showed that caterers are more likely to use delivered operators. However, we were told by Musgrave that increasing numbers of retailers were joining its symbol groups, which include Londis. Also, operators such as Palmer and Harvey and Nisa Retail Limited that do not require symbol group membership provide the option for all retailers to receive delivered grocery services.

8.27 Booker's delivered offering was 28 per cent of total sales for the Booker business to the year ended 31 March 2012. It told us that other cash-and-carry operators were increasingly offering delivered services, notably Bestway. Makro's internal documents acknowledged the increase in customer demand for delivered services and it saw strong growth opportunities in this area.

8.28 We considered the feasibility of Booker or Makro's customers using delivered wholesalers. The parties told us that delivered operators would deliver to customers within a 4-hour drive-time of their depots, which would cover the majority of the UK. This time was significantly higher than the actual average times provided to us by the delivered foodservice operators themselves. The average delivery times provided by Brakes were 71 minutes for most of the UK, and 117 minutes for more remote locations. We were told by [Wholesaler A] that its average delivery radius was [✂] miles, with a typical maximum of [✂] miles and practical maximum of [✂] miles. Musgrave told us that it delivered to its Londis customers across the UK from four depots.

8.29 We recognized that there may be limits to the distances that delivered operators will operate from their depots. However, our investigations showed that delivery limits are, in practice, flexible. Furthermore, the number and type of delivered operator varies by region and local area. We formed the view that delivered operators are likely to be effective alternatives in the wholesale market for most customers in most areas and we therefore took the likely constraint from delivered operators into

[52] We note that the evidence from the delivered operators suggests that they are likely to be constrained by cash-and-carry operators. However, this does not necessarily imply that cash-and-carry operators are equally constrained by delivered operators, which is the key question in this transaction.

account as part of our local analysis, alongside consideration of the constraint from local and regional cash-and-carry operators.

### *The role of buying groups, specialist wholesalers and multiple retailers*

#### *Buying groups*

8.30 Buying groups harness the collective buying power of their members, which are typically independent operators, to obtain preferable buying terms with suppliers. Booker told us that this allowed members to obtain a 'similar (or greater) degree of purchasing power to Booker' and that these operators were able to compete with Booker on price and service. Makro told us that where it faced local or regional competitors, these were often part of buying groups, and Booker told us that it monitored the prices of these buying groups by monitoring the prices of the larger buying group members. The larger local and regional buying group operators told us that Booker and Makro were direct competitors.

8.31 We were told by numerous parties that membership of buying groups gave local and regional cash-and-carry operators access to prices that allowed them to operate at a similar price level to national operators. Costco, Bestway, the Federation of Wholesale Distributors (FWD), JJ and Palmer and Harvey all told us that buying groups were able to obtain competitive prices. The FWD told us that promotions could be provided to members of buying groups at the local level. However, Bestway told us that memberships of buying groups were 'at best' static.

8.32 We conducted a review of price-monitoring documents provided by Booker over six weeks which combine the prices of regional operators.[53] The analysis showed that when these operators, denoted as 'independents', were indexed against Booker (ie Booker is 100) across a range of tracked products, their index value ranged between [✂] and [✂]. This shows that independent operators can offer prices within [✂] per cent of Booker's and are therefore likely to be a constraint on the merged company.

8.33 Overall, in our view the evidence suggested that where a local or regional cash-and-carry or delivered operator is part of a buying group, they may be an effective alternative for the parties' customers. However, the competitive effect of these operators will be limited to their respective locality, and therefore we considered them on a case-by-case basis as part of our local analysis.

#### *Specialist wholesalers*

8.34 Booker also told us that specialist wholesalers, which focus on specific product groups (such as meat or BWS) or customer groups, are prominent in the industry and able to succeed through close working relationships with customers.

8.35 The GfK survey data suggested that specialists are used as a source of supply by some of the parties' customers, although this is naturally limited to the product specialism in question. Specialist wholesalers were mentioned more times by Booker catering and retail customers than Makro as important sources of supply, and were also notably important for Makro's customers. Although these may be an effective alternative for some products and customers, in our view they are not an effective constraint across the full range of grocery and non-grocery products offered by cash-

[53] These operators are [✂].

and-carry operators. We therefore took account of the competitive constraint from specialists on a case-by-case basis as part of our local analysis where relevant.

*Supermarket multiples*

8.36 The parties told us that the supermarket multiple retailers provided a constraint, both as direct and indirect competitors. The direct constraint came from wholesale customers switching to supermarkets for their purchases. The indirect constraint came through the downstream pressure that supermarkets placed on the final selling price charged by the parties' retail customers. They also told us that multiple food outlets and caterers placed an indirect constraint on their catering customers.

8.37 Booker supplied price-monitoring documents for two of the multiples, [✂] and [✂], which we have analysed in Table 6 below.

TABLE 6 **Supermarket prices indexed against Booker**

| | [✂] | | [✂] | |
|---|---|---|---|---|
| | *% weeks basket cheaper (n=36)* | *Overall basket price (Booker base=100)* | *% weeks basket cheaper (n=36)* | *Overall basket price (Booker base=100)* |
| Bakery | [✂] | [✂] | [✂] | [✂] |
| Fruit & vegetables | [✂] | [✂] | [✂] | [✂] |
| Dairy, eggs & chilled | [✂] | [✂] | [✂] | [✂] |
| Meat, fish and poultry | [✂] | [✂] | [✂] | [✂] |
| Frozen | [✂] | [✂] | [✂] | [✂] |
| Cleaning | [✂] | [✂] | [✂] | [✂] |
| Laundry | [✂] | [✂] | [✂] | [✂] |
| Pet food | [✂] | [✂] | [✂] | [✂] |
| Health & beauty | [✂] | [✂] | [✂] | [✂] |
| Non-food | [✂] | [✂] | [✂] | [✂] |
| Catering grocery | [✂] | [✂] | [✂] | [✂] |
| Core grocery | [✂] | [✂] | [✂] | [✂] |
| Biscuits | [✂] | [✂] | [✂] | [✂] |
| Confectionery | [✂] | [✂] | [✂] | [✂] |
| Crisps | [✂] | [✂] | [✂] | [✂] |
| Hot beverages | [✂] | [✂] | [✂] | [✂] |
| Soft drinks | [✂] | [✂] | [✂] | [✂] |
| Beer | [✂] | [✂] | [✂] | [✂] |
| Cider | [✂] | [✂] | [✂] | [✂] |
| Spirits | [✂] | [✂] | [✂] | [✂] |
| Wines & fortifieds | [✂] | [✂] | [✂] | [✂] |
| Average | | [✂] | | [✂] |

*Source:* CC analysis of Booker data.

8.38 We can see from Table 6 that there is considerable variation in the tracked basket prices for different customer groups. Only four bakery and some alcoholic products in Asda and Tesco are likely to be competitive alternatives for Booker's customers, with other categories, including meat, fish and poultry and fruit and vegetables not being an economically viable alternative option. This suggests that the multiples are generally not effective alternatives to cash-and-carry operators across the majority of product groups.

8.39 Booker's strategy documents listed [✂] and [✂] as main competitors, and included competition from the multiple retailers as one of its main risks going forward. We note that Makro's price-monitoring documents consider [✂] as a competitor.

8.40 We also spoke to the multiples. [A large grocery retailer] told us that it did not target the wholesale market, and did not monitor the extent to which business customers use its stores. Asda told us that it did not compete directly with the wholesale market; however, it did have a business-focused website. This primarily targeted businesses such as childcare nurseries and offices and was currently serving around [✂] customers per week. Asda was committed to growing this business.

8.41 We found that multiple retailers are likely to be used for a limited amount of supply for smaller caterers, and much less so for retailers. They are only competitive in a small number of product groups. However, we noted that they do place some indirect constraint on wholesalers, particularly by competing directly with their retail customers, and that they are consistently monitored, as described in paragraphs 8.37 to 8.39.

### *Price-concentration analysis*

8.42 Appendix I examines how local concentration affects variable profit margins of Booker's stores based on a 30-minute isochrone around each Booker store. The main result of this analysis is that the higher the number of competing fascias that a Booker store faces, the lower is its variable profit margin, but that the profit gain of reducing the number of local cash-and-carry fascias is small.

8.43 Our analysis suggested that an additional national or large regional fascia in an isochrone is associated with a [✂] percentage points lower margin in the associated Booker store. Given an average variable margin of [✂] per cent across the stores that face Makro in their isochrones, we note that the economic importance of these results is modest. When expressed in monetary terms, the estimated effects of removing Makro's presence implies a variable profit gain of approximately £[✂] million in the 68 affected Booker stores post-merger.[54]

8.44 We did not consider that the results can be used to simulate meaningfully the effects of the merger on price in specific areas. This is because the estimated effect of higher concentration represents an average effect across all areas and because we expected the effect of the merger to depend on the characteristics of each local area, including the competitive conditions.

### *The effect on customers*

8.45 We concluded that national delivered operators and significant regional and local cash-and-carry and delivered wholesalers (particularly those that are members of major buying groups) potentially impose competitive constraints on the parties. However, there may be some customers that, due to pricing and preferences, source the majority of their goods from a cash-and-carry wholesaler.

8.46 We considered whether this group of customers would be protected from any potential price increases post-merger by competition from delivered wholesalers. This raises the question of whether the merged company might be able to price discriminate effectively post-merger, increasing prices to those customers that are largely or solely dependent upon visiting a cash-and-carry store, while maintaining competitive prices to those customers that can or currently do use delivered suppliers.

8.47 Cash-and-carry competitors operate with 'posted' prices—that is, product prices are publicly displayed in store and in promotional material. Price setting in a posted-price system tends to be driven by the behaviour of customers that can and do switch supplier. The threat of those customers switching will constrain prices to the benefit of all cash-and-carry customers. However, this conclusion would not hold if there

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[54] We have not quantified the equivalent effect on the turnover of Makro stores given that the counterfactual to the merger is the exit of a significant (but unknown) number of the Makro stores.

were methods of identifying and then discriminating against 'captive' customers that would only use cash-and-carry.

8.48 Our analysis has shown that there are targeted rebates and offers made to particular groups of customers and regions. Larger customers often received discounts for exceeding certain expenditure thresholds. These thresholds were high compared with the average level of purchases, and there were also promotions that were targeted at different segments. Booker had a number of price tiers that made minor adjustments to prices across regions, Scotland in particular. However, we did not see evidence that cash-and-carry operators can accurately target those customers that may face difficulty switching to delivered, specialist or other operators.

8.49 In particular, we noted that the size of customers' purchases may not be a good proxy for willingness or ability to switch, as multi-sourcing (including between delivery channels) is common. The Harris International Marketing survey evidence showed that some, primarily delivered, customers source a proportion of their supply from a cash-and-carry store for 'top-up shopping', implying that cash-and-carry customers making small or infrequent purchases will not necessarily be those that are unable to use delivered wholesale alternatives.

8.50 We therefore considered it unlikely that there was a substantial captive cash-and-carry customer group that could be exploited through price discrimination strategies.

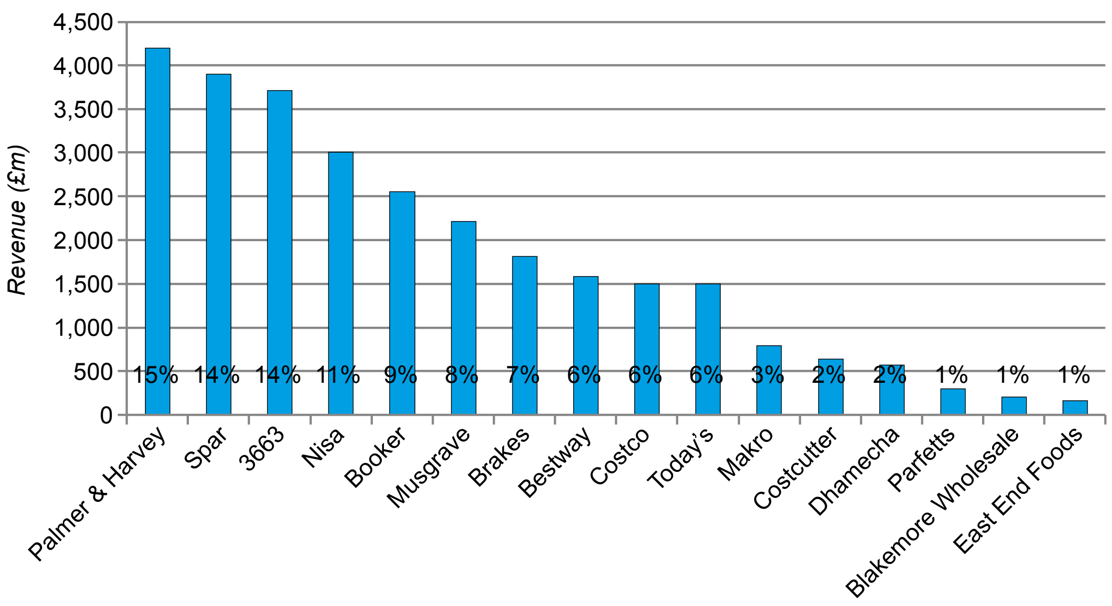
### *National competition*

8.51 In this section, we consider the strength of the competitive constraints faced by the parties at the national level.

8.52 Our estimates of the parties' national market shares and those of their competitors (both delivered and cash-and-carry) are presented below.

FIGURE 2

UK grocery and foodservice wholesale market shares




*Source:* CC analysis of IGD and publicly available accounting data.

8.53 The analysis shows that Booker is the largest cash-and-carry operator ahead of Bestway, Costco and Makro. When delivered operators are included, Booker is second behind Palmer and Harvey.

8.54 Based on our estimates, the parties have a post-merger market share of the overall wholesale market, including all distribution channels, of 17.2 per cent. This is a post-merger increment of 2.9 per cent. If we only consider the pure cash-and-carry market, we estimate a post-merger market share for the parties of around 35 per cent.

8.55 We considered the retail and catering segments individually. In retail, Booker told us that its market share was [✂] per cent, and Makro's was [✂] per cent. Based on IGD data, Booker's share of the retail market is around 19 per cent and Makro's is around 1 per cent, supporting the parties' view that Makro is a relatively weak competitor in retailing. In catering, IGD data estimates Makro's market share to be around 2 per cent compared with Booker's 12 per cent, with the parties having a post-merger market share of approximately 15 per cent.

8.56 We also looked at the barriers to entry and expansion at a national level. Detail of our analysis on entry and expansion is set out in Appendix J. We have concluded that new entry at a national level would be neither likely nor timely in the current market conditions. This view is based on the evidence received which showed that there have been no new competitors that have entered at the national level in the recent past. Also, while there is evidence of expansion, this is typically incremental and spread over a number of years. We therefore did not consider it likely that a new competitor—either a new entrant or expanding regional competitor—would expand its footprint sufficiently to be considered a national supplier in the cash-and-carry wholesaling business within a one- to two-year period.

8.57 At the national level, the transaction brings together the numbers 1 and 4 cash-and-carry operators. If we include both delivered and cash-and-carry in the wholesaling market, this is a merger between the 2nd and 11th largest operators. We concluded that there is not likely to be an SLC at the national level. This is due to the relatively small size of Makro at the national level and limited market share increment resulting from the transaction.

### ***Local competition***

8.58 We concluded that there is evidence of local competition and some ability to price locally when optimal to do so. We therefore assessed whether there are local areas where the merger may be likely to give rise to an SLC. As an initial filtering step, we first considered areas where customers may be harmed because the number of major cash-and-carry fascias is reduced by the merger to identify markets for detailed analysis. In our initial filter, we did not consider other constraints from delivered and local competitors.

#### *Methodology for analysis of local loss of competition*

8.59 We used the following filtering rules as an initial screen to identify where the merger could possibly raise competition concerns. We assessed these areas in detail. We identified areas where:

*(a)* The Booker and Makro stores were within a maximum of 60 minutes' drive-time of each other. Customers located in overlapping areas of the 30-minute iso-chrones would have fewer independent cash-and-carry wholesalers to choose

from post-merger. The 30-minute isochrone was based on the parties' analysis which showed that on average 80 per cent of the local customer base was located within a drive-time of up to 30 minutes.

*(b)* The merger would result in a four to three (or fewer) fascia reduction among cash-and-carry competitors within a 30-minute isochrone of each Makro store that has a competitive overlap with Booker. The set of national competitors includes Bestway, Costco, Booker and Makro. The major regional cash-and-carry operators considered were A F Blakemore and Sons Ltd (Blakemore), BA Cash and Carry Ltd, Dhamecha, Hyperama Cash & Carry (Hyperarama), Parfetts and United.

8.60 This gave rise to 16 local areas of potential concern. However, of the 14 areas for which we did not have initial concerns, we retained two for detailed analysis due to high diversion ratios based on the GfK customer survey, and because the competing cash-and-carry operators were situated to the edge of the isochrone. These areas were Charlton and Nottingham.

8.61 This resulted in 18 overlapping areas being identified for detailed analysis where we considered that there was the potential for post-merger competitive concerns.

### *Approach to the competitive assessment after the initial filtering*

8.62 For the areas identified by the filtering process, we conducted a more detailed assessment of the impact of the merger. Our assessment was based on all the evidence in the round and considered:

*(a)* The competitors present in the identified isochrones. At this stage of our analysis we focused our attention on national and large regional cash-and-carry operators only. In each local area we then considered the number and distribution of fascias within each local market delineated by a 30-minute isochrone surrounding the Makro store. We distinguished between three grades of overlap:

(i) Full overlap: in these cases one or more competitors are situated just outside the Makro isochrone, but the overlap from the isochrone around the competitor covers the majority of the Makro customer base.

(ii) Partial overlap: in these cases there is some overlap between the Makro and competitor isochrone.

(iii) None: no overlap.

*(b)* The customer share of spend. This is useful as a proxy for multi-sourcing activity in the market, and of the relative importance of each supplier to the customer. We assessed the customer share of spend for Booker and Makro using the parties' customer survey results which are set out in detail in Appendix D. We considered the share of spend to be:

(i) low if most of the respondents stated that they spent less than 30 per cent with Booker or Makro;

(ii) moderate if most of the respondents stated that they spent less than 50 per cent with Booker or Makro; and

(iii) high if most of the respondents stated that they spent more than 50 per cent with Booker or Makro.

(c) We also mapped the distribution of customers in the local area. In some local areas the customer distribution implied that customers would often exceed a 30-minute drive-time. This was particularly the case in more remote areas.

(d) We used diversion ratios[55] to help indicate the closeness of competition between the merger parties and other sources of supply. We assessed the diversion ratios between the parties based on the GfK survey results.

(e) We used the parties' margin data coupled with the diversion ratios to calculate a 'Gross Upward Pricing Pressure Index' (GUPPI) indicator. This measures the incentive of one merger party to raise its price post-merger. It does this by assessing the proportion of any sales lost following the price rise that would be recaptured by the other merger party. The GUPPI is produced by using a formula that puts together current margins and estimated diversion ratios.[56,57]

8.63 We noted that the GfK survey results were from low sample sizes in each local area. Therefore, whilst we calculated diversion ratios and GUPPI estimates as part of our analysis, we did not give these undue weight in our decision-making due to the low sample size at the local level. Rather, we used them as one of the factors taken into account when identifying local areas of potential concern, and then considered the alternatives available to customers in order to assess whether there might be an SLC in a local area.

8.64 We also considered the extent to which potential entry of a new wholesaler or expansion of an existing wholesaler may constrain the merged company from increasing prices in local markets as a part of this local analysis. Full detail of the analysis is contained in Appendix J. We have concluded that in some local areas, entry or expansion by an existing cash-and-carry wholesaler or entry by a new entrant may be possible, depending on the local market conditions and in particular the size of the commercial opportunity in the local area.

*Local competitive assessment*

8.65 A summary of our findings for the 18 areas of initial concern is set out in Table 7 below.

[55] The diversion ratios are estimated from a suite of questions asked in the GfK survey. The main question is as follows: 'I want you to think about what you would have done instead if the [Booker/Makro] store had not been available when you made your last purchase (for example because the store had closed for refurbishment for six months).

[56] A full description of the Booker margins used is included in Appendix I. Makro margins are based on notional profit (sales value – cost of goods at net net buying price) + later income (supplier terms / rebate agreements) + ad-hoc income (other supplier income outside of terms) + shrinkage (the cost of write-offs such as theft, damages etc).

[57] The formula used is GUPPI = $d_{12} * m_2 * (p_2/p_1)$. $d_{12}$ is the diversion ratio of sale lost from party 1 to party 2 and $m_2$ is the margin of party 2 recapturing the lost sales. $p_1$ and $p_2$ would be the prices of a sale accordingly. We assume $p_2/p_1$ to be equal to 1, as the considered goods are homogenous.

TABLE 7 **Summary of findings for the 18 areas of initial concern**

| | | | *First stage analysis* | | | | | | | *Further analysis* |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | *Overlap* | *Diversion ratio* | | *Share of spend* | | *Price indicators* | | *Assessment of the constraint provided by the following: at the second stage, national delivered wholesalers and detail of customer overlap; at the third stage, local competition and finally the local level counterfactual* |
| | *Status* | *Fascia reduction* | *com-petitors* | *Booker* | *Makro* | *Booker* | *Makro* | *GUPPI* | | |
| Aberdeen | 1st stage | 4:3 | None | Low | Low | Low | Low | Low | | - |
| Bristol | 2nd stage | 4:3 | Partial | Low | High | Moderate | Low | Low | | Multiple cash-and-carry operators, presence of national delivered wholesalers |
| Charlton | 1st stage | 5:4 | Full | High | High | Low | Low | Low | | - |
| Edinburgh | 1st stage | 4:3 | None | Low | High | Moderate | Moderate | Low | | - |
| Exeter | 2nd stage | 3:2 | None | High | High | Moderate | Low | Low | | Significant customer overlap and evidence of presence of national delivered wholesalers |
| Hull | 4th stage | 2:1 | None | High | High | High | Low | Moderate | | National cash-and-carry operator with partial overlap, presence of national delivered wholesalers, local competitors |
| Ipswich | 4th stage | 2:1 | None | High | High | High | Low | Moderate | | Presence of national delivered wholesalers, local competitor with partial overlap |
| Leicester | 2nd stage | 4:3 | Partial/ none | High | High | Low | Low | Moderate | | Presence of national delivered wholesalers |
| Norwich | 4th stage | 2:1 | None | High | High | Moderate | Low | Moderate | | Presence of national delivered wholesalers, local competitors with full overlap |
| Nottingham | 1st stage | 5:4 | Full/ partial | Low | High | Moderate | Low | Low | | - |
| Poole | 4th stage | 2:1 | None | High | High | Moderate | Low | Moderate | | Presence of national delivered wholesalers, some local specialists |
| Preston | 1st stage | 3:2 | Partial | Low | Low | Low | Low | Low | | - |
| Queensferry | 2nd stage | 3:2 | Partial | Low | High | Moderate | Low | Moderate | | Significant customer overlap and evidence of presence of national delivered wholesalers |
| Rayleigh | 2nd stage | 2:1 | Partial | High | High | High | Low | Moderate | | Significant customer overlap and evidence of presence of national delivered wholesalers |
| Reading | 3rd stage | 3:2 | Partial | High | High | Low | Low | Moderate | | Partial overlap from national/major regional cash-and-carry operators, presence of significant local competition, presence of national delivered wholesalers |
| Southampton | 1st stage | 3:2 | None | Low | High | Moderate | Low | Low | | Expected future entry |
| Stoke | 3rd stage | 3:2 | Partial/ none | High | High | Low | Moderate | Potential concern | | National C&C in catchment, some overlap with national cash-and-carry operators from outside isochrones, presence of national delivered wholesalers |
| Teesside | 1st stage | 4:3 | None | Low | Low | Moderate | Low | Low | | - |

*Source:* CC analysis.

8.66 Following our first stage analysis we found the following:

(a) Charlton and Nottingham had a post-merger fascia reduction of five to four. Preston had a post-merger fascia reduction of three to two; however, it had a partial overlap with two additional competing cash-and-carry wholesalers. Charlton and Preston also had low shares of spend and/or low diversion ratios. Nottingham had partial overlap with one additional competing cash-and-carry wholesaler. All three local markets had low GUPPIs. We therefore concluded that in these areas there was unlikely to be an SLC.

(b) Aberdeen, Edinburgh and Teesside had a fascia reduction of four to three. Southampton had a fascia reduction of three to two but there is expected future entry (Costco plans to open a store in Southampton). Existing cash-and-carry competitors were coupled with a mix of low shares of spend and low diversion ratios or high diversion ratios resulting in low GUPPIs. We therefore concluded that in these areas there was unlikely to be an SLC.

8.67 We then conducted a more detailed analysis of the remaining 11 local areas. This further detailed analysis is set out in full in Appendix H. First we undertook a re-examination of the first stage indicators alongside a more detailed consideration of the actual customer distribution in the market and spending patterns. Second, based on our conclusion in paragraph 8.29 that indicates that delivered operators are effective competitors for some customers in some local areas, we considered delivered depots to be relevant to our analysis either if they were located within 60 minutes' drive-time of the Makro store, or if we found evidence of actual supply to the local area.[58] We considered relevant operators in this case to be [Wholesaler A], Brakes, JJ and Palmer and Harvey.[59] The first three specialize in delivering to caterers and the last one in delivering to retailers.

8.68 In this second stage analysis we found the following:

(a) In Bristol and Leicester, the merger would reduce the number of national or large regional cash-and-carry competitors from four to three. In addition, we found a significant overlap with delivered operators in both areas. In Bristol, the survey evidence suggested low to moderate shares of spend for the parties, consistent with there being other significant competitors in the area. In Leicester, we noted two other relevant competitors imposing a constraint (Hyperama and Blakemore), and the survey evidence showed low shares of spend for the parties. We concluded that in these areas there was unlikely to be an SLC.

(b) In Queensferry, there is a fascia reduction of three to two. In Rayleigh, there is a fascia reduction of two to one, but there is significant customer overlap with both Costco and Bestway. Neither area is particularly isolated. The GfK survey showed low to moderate shares of spend, implying that there are other suppliers used by the parties' customers. In Rayleigh, we identified partial overlap with two additional national cash-and-carry operators, Bestway and Costco, and at least two national delivered operators were also operating in the area. We concluded that in these areas there was unlikely to be an SLC.

[58] Brakes told us that average delivery times were 71 minutes in most of the UK, while [Wholesaler A] said that its practical maximum was around [✂] miles. We have therefore used 60 minutes as a reasonable estimate for an unaffiliated customer. We note that Musgrave told us that it would travel much larger distances for members of its symbol groups due to the higher committed volumes of these businesses, and that it covered most of the UK from four depots.

[59] We also acknowledge that retailers are able to access delivered services through the membership of symbol groups.

(c) In Exeter, the fascia count reduces from three to two post-merger. However, we found that a major national cash-and-carry operator (Bestway) remains in the market and is close to Exeter's Makro store. There are also three major delivered operators present in the region and evidence that the Makro customer base is widespread—not confined to Exeter. The survey evidence exhibits low to moderate shares of spend for the parties, consistent with there being other competitors in the market, and the GUPPI estimate was low. We therefore concluded that there was unlikely to be an SLC.

8.69 In the remaining six local areas we looked closely at the competitors in the local area, in particular taking into account the existence of any local and regional cash-and-carry wholesalers, and any local delivered or specialist wholesalers.

8.70 We found the following:

(a) In Reading, our initial filter suggested that the fascia count of national and large regional cash-and-carry operators is three to two post-merger. However, following a review of competitors' overlapping areas based on customer distributions, we found that two additional national or large regional cash-and-carry fascias, Bestway and Dhamecha (situated to the east of the Makro store), should be considered as relevant competitors. Furthermore, we found three national delivered operators—[Wholesaler A], Brakes and JJ—all had depots within 60 minutes of the Reading store. Thames Cash & Carry Ltd and N&B Foods Ltd were both identified as local competitors. The survey data showed low shares of spend held by the parties, implying that there may be other competitors in the market. We therefore concluded that there was unlikely to be an SLC.

(b) In Stoke, the fascia count of national and large regional cash-and-carry operators reduces from three to two post-merger, with a major cash-and-carry competitor (Bestway) being located close to the Makro store. The analysis of the customer distribution in the local area shows that there may be some (albeit limited) constraint from other national cash-and-carry operators, including Hyperama to the south and Costco and Parfetts to the north. We found that four major delivered competitors operated from depots within 60 minutes of the Makro store. The parties' share of spend is low to moderate, consistent with there being other competitors in the market. We therefore concluded that there was unlikely to be an SLC.

8.71 This left four remaining areas: Hull, Ipswich, Norwich and Poole. In these areas, we approached four of the national delivered wholesalers for further information on the frequency and scale of their business in these areas. We also undertook a more detailed analysis of the counterfactual which is set out in Appendix G and of the barriers to entry and expansion which is set out in Appendix J. We found the following:

(a) In Hull, there is a reduction of national and larger regional cash-and-carry wholesalers from two to one. We also identified significant clusters of Makro customers located around Scunthorpe and Grimsby that have drive-times of over 30 minutes. Bestway and Blakemore are located close to these clusters, marginally outside the 60-minute isochrone, to the south and west of Hull. We consider that these operators provide a competitive constraint for these customers. We also identified four local competitors that were relevant in Hull. One of these, D B Ramsden Limited, is a member of the Today's (Holdings) Limited (Today's) buying group. Three of the delivered operators told us that they delivered to Hull—Brakes, JJ and Palmer and Harvey. Hull is served by Brakes from a depot in Hemsworth (84 km), by Palmer and Harvey from a depot in Leeds (100 km) and by JJ from a depot in Doncaster. Brakes has a sales volume of £[✄] million, which is larger than Makro's sales volume of £[✂] million for caterers. In addition, in the analysis of the local counterfactual set out at in Appendix G we provisionally concluded that the most likely outcome for the Hull store was that it would have been acquired by a non-cash-and-carry wholesaler. We therefore concluded that there was unlikely to be an SLC.

*(b)* In Ipswich, there is a fascia reduction in terms of national and larger regional cash-and-carry wholesalers from two to one. We decided that the most likely counterfactual was acquisition of the store by either Costco or Bestway (see Appendix G) and that entry or expansion into this area would not be timely, likely or sufficient (see Appendix J). However, we identified a local operator to the west of Ipswich, Forward Wholesale Ltd, which is a member of the Today's buying group and offers both cash-and-carry and delivered services. This is based in Sudbury, within a 60-minute drive-time of the Makro store. We also found that Makro's customers using its Ipswich store come from a wide catchment area, with a significant number being located in Bury St Edmunds and Colchester—locations that are a similar distance or closer to Sudbury than to Ipswich. Brakes told us that it delivered daily from a depot in Thetford (55 km). JJ told us that it delivered from a depot in Enfield (119 km) and Palmer and Harvey's depot is based in Brandon (68 km). In terms of scale, we were told that in 2012, Brakes' net sales were around £[✂] million in Ipswich and surrounding areas. This is [✂] per cent more than local Makro sales to catering and retail customers in 2011. The survey evidence showed that on the whole the parties' share of spend is low to moderate for most customers, implying that the parties' customers may be purchasing from other sources of supply. Therefore we concluded that there was unlikely to be an SLC.

*(c)* In Norwich, there is a fascia reduction in terms of national and larger regional cash-and-carry wholesalers from two to one. We decided that the most likely counterfactual was acquisition of the store by either Costco or Bestway (see Appendix G) and that entry or expansion into this area would not be timely, likely or sufficient (see Appendix J). First, we noted that Norwich is surrounded by a number of small and coastal towns. Brakes, Palmer and Harvey and JJ all said that they did deliver to Norwich and would deliver to all coastal towns. Brakes delivered daily to Norwich from a depot in Thetford (48 km), JJ delivered from a depot in Enfield (171 km) and Palmer and Harvey delivered from a depot in Brandon (60 km). In terms of scale in 2012, Brakes' net sales were around £[✂] million in Norwich and surrounding areas, substantially higher than Makro which had £[✂] million of revenue to caterers in 2011. We also found that there were three local competitors in the area, including Forward Wholesale Ltd (based in Norwich), which is a member of the Today's buying group and has a second site in Suffolk. This operator offers both cash-and-carry and delivery services. Anglia Culinary Suppliers Ltd, a delivered operator, is located within 30 minutes of the Makro store, as is Select Cash & Carry Ltd, a beverage specialist. The survey data showed that the parties' share of their customers' spend is low. Therefore we concluded that there was unlikely to be an SLC.

*(d)* In Poole, there is a fascia reduction in terms of national and larger regional cash-and-carry wholesalers from two to one post-merger. We decided that the most likely counterfactual was acquisition of the store by either Costco or Bestway (see Appendix G) and that entry or expansion into this area would not be timely, likely or sufficient (see Appendix J). However, there is a competitive constraint on the parties from delivered operators, with Brakes, JJ and Palmer and Harvey all stating that they deliver to Poole. Poole is served by Brakes on Mondays, Wednesdays and Fridays from a depot in Eastleigh (61 km), by JJ from a depot in Basingstoke (100 km) and by Palmer and Harvey from a depot in Fareham

(84 km). In terms of scale, Brakes realizes revenues of around £[✂] milllion in Poole, slightly smaller than Makro's revenue of £[✂] million to catering customers. We also found that there was competition from two local competitors which were specialists in the catering sector. The survey exhibits low to moderate share of spend, implying that the parties' customers are likely to be using other competitors operating in the area. Diversion ratios were notable for Booker's retail customers and for both of Makro's customer groups; however, GUPPIs were only moderate for Makro retail customers. Therefore, on balance, we concluded that there was unlikely to be an SLC.

*Provisional conclusion on local competitive assessment*

8.65 We concluded that there were unlikely to be any local SLCs.

## 9. Findings

9.1 We conclude that the merger has not resulted, and is not expected to result, in an SLC within any market or markets in the UK for goods or services.