Terms of reference and conduct of the inquiry

Terms of reference

1. On 8 November 2012 the OFT sent the following reference to the CC:

    1. In exercise of its duty under section 22(1) of the Enterprise Act 2002 ('the Act') to make a reference to the Competition Commission ('the CC') in relation to a completed merger the Office of Fair Trading ('the OFT') believes that it is or may be the case that—

        (a) a relevant merger situation has been created in that:

            (i) enterprises carried on by or under the control of Booker Group plc have ceased to be distinct from enterprises carried on by or under the control of Makro Holding Limited; and

            (ii) the value of the turnover of the enterprise being taken over exceeds £70 million; and

        (b) the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within any market or markets in the UK for goods or services, including the cash and carry wholesale supply of grocery and related non-grocery products to retailers and caterers.

    2. Therefore, in exercise of its duty under section 22(1) of the Act, the OFT hereby refers to the CC, for investigation and report within a period ending on 24 April 2013, on the following questions in accordance with section 35(1) of the Act—

        (a) whether a relevant merger situation has been created; and

        (b) if so, whether the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within any market or markets in the UK for goods and services.

(signed) AMELIA FLETCHER
Senior Director, Office of Fair Trading
8 November 2012

Interim measures

2. On 12 November 2012 we adopted the initial undertakings accepted by the OFT from Booker Group plc on 4 July 2012. These undertakings are published on the CC website.

3. On 28 November 2012 we directed Booker to appoint a monitoring trustee. The directions are published on the CC website.

4. On 14 November 2012 we accepted derogations to the undertakings which allowed Makro to appoint to two vacant senior positions.

5. On 26 November 2012 we accepted two derogations to the undertakings. The first allowed the surrender of a lease of a Makro warehouse unit that had been closed since before the merger. The second allowed Makro to procure legal services for the business.

6. On 21 December 2012 we accepted derogations to the undertakings, which allowed Makro to dispose of two pieces of land and to leave a senior post vacant.

7. On 17 January 2013 we accepted a derogation to the undertakings, which allowed Makro to purchase burgers from Booker.

8. On 5 February 2013 we accepted a derogation to the undertakings, which allowed Makro to purchase Thatcher's cider products from Booker.

9. On 21 February 2013 we accepted two derogations to the undertakings, which allowed Makro to dispose of another piece of land and allowed Booker and Makro to tender jointly for the provision of pension auto-enrolment services.

10. On 25 March 2013 we accepted a derogation to the undertakings, which allowed Booker to commence a pilot of a concept store.

Conduct of the inquiry

11. An invitation to comment on the inquiry was posted on the CC website on 8 November 2012. We also published biographies of the members of the Group conducting the inquiry. The administrative timetable for the inquiry was published on the CC website on 27 November 2012.

12. We invited a wide range of interested parties to comment on the acquisition. These included customers of the main parties, competitors and potential competitors. Evidence was also obtained through oral hearings with third parties, through telephone contacts and through further written requests. Non-sensitive versions of submissions and summaries of hearings can be found on our website.

13. On 13 December 2012 members of the Inquiry Group, accompanied by staff, visited Booker and Makro stores in South East London to see the operation of the businesses.

14. An issues statement was posted on our website on 12 December 2012, setting out the areas of concern on which the inquiry would focus.

15. We received written evidence from Metro AG, the former parent company of Makro, and held a hearing with it on 20 December 2012.

16. We also received written evidence from Booker and held a hearing with it on 4 February 2013. A non-sensitive version of Booker and Makro's main submission can be found on the CC website.

17. In the course of our inquiry, we sent to Booker and Makro and other parties some working papers and extracts from those papers for comment.

18. On 14 March 2013 we published a non-confidential version of our provisional findings report on our website.

19. We would like to thank all those who have assisted in our inquiry.

Industry background

Introduction

1. This appendix gives an overview of the grocery and related non-grocery wholesaling market in the UK. The appendix covers the following areas:

   (a) market size; and

   (b) types of wholesalers.

Market size

2. According to the IGD,[1] the grocery and foodservice wholesale market in the UK was estimated to be worth £27.2 billion in 2012[2] (see Table 1) and is estimated to grow to £31 billion by 2017. This represents an average annual growth rate of 2.6 per cent over the five-year period.[3]

TABLE 1 **UK grocery and foodservice wholesale market in 2012 (£ million)**

Type of wholesaler	*Type of customer*			
	Retailer	*Food, catering & hospitality*	*Professional business users**	*Total*
Cash-and-carry	7,182	2,994	1,460	11,636
Delivered grocery	6,178	74	N/A	6,252
Delivered foodservice	95	6,426	N/A	6,521
Total	13,455	9,494	1,460	27,211

Source: UK Grocery and Foodservice Wholesaling 2013 – Sector performance, statistics and forecasts, IGD, December 2012.

*Individuals or enterprises that are not affiliated with other retailers or caterers and foodservice operators.
Note: N/A = not applicable.

3. [✂]

Types of wholesalers

4. We identified six ways for suppliers to get their products to the market. These were: cash-and-carry wholesalers; delivered grocery and foodservice wholesalers; specialist wholesalers; symbol groups; buying groups; and direct supply.

5. [✂] These typically sourced directly from producers and suppliers and therefore did not require the services of wholesalers. The leading multiple retailers in the UK are Tesco, Asda, Sainsbury's and Morrisons. We do not consider the multiple retailers further in this appendix, but have considered the extent of constraint they place on wholesalers when assessing competitive constraints on the identified market.

[1] A research organization focusing on the UK grocery industry.
[2] There are other estimates of the size of the market, such as the Office for National Statistics (ONS) estimate of £94.5 billion for food, beverages and tobacco. However, we believe that the IGD estimate is the most appropriate when focusing solely on the wholesale market.
[3] *UK Grocery and Foodservice Wholesaling 2013 – Sector performance, statistics and forecasts*, IGD, December 2012.

Cash-and-carry wholesalers

6. Cash-and-carry wholesalers operate self-service depots for registered customers, typically independent retailers and caterers and foodservice operators. Both Booker and Makro are cash-and-carry operators, although Booker has a well-established delivered offering. The key characteristics of cash-and-carry wholesaling are:

   (a) Purchases are often settled immediately. [✂]

   (b) There are usually no minimum order requirements, which means that customers can buy frequently in order to minimize the risk of stock obsolescence and reduce stock holding costs, thus easing the pressure on cash flow.

   (c) Customers are generally responsible for transporting their purchased products away from site. However, some cash-and-carry wholesalers also offer a delivered service. [✂]

7. The leading national cash-and-carry wholesalers are summarized in Table 2.

TABLE 2 **National cash-and-carry wholesalers**

Name	*Turnover £m*	*Stores*	*Area of operation*
Booker	3,900	172*	UK
Bestway†	2,210	62‡	UK
Costco	1,503	23	UK
Makro	793	30	UK

Source: OFT's decision on reference given on 8 November 2012; latest company accounts; company websites; FWD/ Wholesale News—Retail Review 2013; and *Grocer* article of 7 April 2012 'Bestway sales break through £2bn barrier'.

---

*Booker operates four delivery hubs in addition to its 172 stores.
†Bestway also operates the Best-One symbol group, which has 1,000 member stores, and two retailer clubs, Xtra Local and Best-in Local, which have 2,000 member stores in total.
‡Bestway's 62 stores include 24 stores branded as Batleys, which was acquired by Bestway in 2005. Bestway operates these 24 stores under the Batleys and Bellevue name. Bestway also operates CJ Lang, a delivered grocery wholesaler.

8. The leading regional cash-and-carry wholesalers are summarized in Table 3.

TABLE 3 **Regional cash-and-carry wholesalers**

Name	*Turnover £m*	*Stores*	*Area of operation*	*Member of symbol or buying group*
Dhamecha	565	7	London	Today's
Parfetts	293	6	North-west England	Landmark
Blakemore Wholesale	200*	9	Midlands, northern England & Wales*	Spar
East End Foods	160	4	Birmingham	Landmark
United Wholesale	125	2	Glasgow	Today's
Wing Yip	101	4	Birmingham, London & Manchester	N/A
Hyperama	100	3	Midlands	Landmark
TRS Cash & Carry	100	2	London	Landmark
BA Cash & Carry	98	2	South Wales	Landmark
East Enders Cash and Carry	Not disclosed	6	London & Midlands	N/A

Source: Latest company accounts; company websites; and FWD/Wholesale News—Retail Review 2013.

*Blakemore Wholesale is the cash-and-carry and delivered wholesale arm of AF Blakemore, a group comprising retail, wholesale, distribution and shop-fitting operations. AF Blakemore's revenue for the year ended 30 April 2011 was £912 million. About £200 million of this revenue relates to Blakemore Wholesale.
Note: N/A = not applicable.

Delivered grocery and foodservice wholesalers

9. Delivered grocery and foodservice wholesalers deliver to their customers from regional or national distribution networks. Their customers are primarily independent retailers and caterers and foodservice operators, including restaurants, pubs and hotels and public sector and institutional caterers. The key characteristics of delivered wholesalers are:

(a) Orders are usually made via telephone, facsimile or the Internet using catalogues and/or product lists.

(b) Payment is often settled on account (ie the payment is processed by the customer upon receipt of an invoice). [✂][4]

(c) Customers are usually required to order a minimum quantity of products.

(d) Delivered wholesalers typically charge a fee for the delivery of the products to the customer.[5]

10. The increasing prominence of delivered wholesaling is in response to customer requirements. [✂]

11. The leading delivered grocery and foodservice wholesalers are summarized in Table 4.

[4] As previously noted, the availability and level of credit available to delivered wholesale customers varies across the market.
[5] Many larger wholesalers, such as Booker and Palmer and Harvey, offer free delivery.

TABLE 4 **Delivered grocery and foodservice wholesalers**

Name	*Turnover £m*	*Sector*	*Sites*	*Area of operation*	*Member of symbol or buying group*
Palmer and Harvey*	4,200	Grocery	14	UK	N/A
Brakes	2,550	Foodservice	31	UK & France	N/A
3663†	1,810‡	Foodservice	26	UK	N/A
James Hall	464	Grocery	Not disclosed	Northern England	Spar
CJ Lang & Son‡	209	Grocery	Not disclosed	Scotland	Spar
JW Filshill	169	Grocery	1	Scotland & northern England	Today's
JJ	138	Foodservice	7	UK	Landmark
Appleby Westwood	135	Grocery	Not disclosed	South-west England	Spar
Blakemore Foodservice§	99	Foodservice	2	UK	Spar
Castle Howell Foods	65	Foodservice		Wales	N/A
Creed Foodservice	43	Foodservice	2	UK	Today's
Sutherland Brothers	12	Grocery	1	Scotland	Landmark
Fresh Island Foods	11	Foodservice	Not disclosed	Midlands & northern England	N/A

Source: Latest company accounts; company websites; and FWD/Wholesale News – Retail Review 2012 and 2013.

*Palmer and Harvey also operates four symbol groups (Mace, Mace Express, Your Store and Supershop). In March 2013 the Costcutter symbol group announced a change in its future distribution contract whereby Palmer & Harvey will replace Nisa as its primary distributor once the Nisa contract expires. Alongside this transaction, the parties have agreed to establish a joint venture negotiating entity called The BuyCo Limited. This new company will negotiate terms on behalf of its members representing a purchasing requirement of around £5 billion.
†3663 is a trading name of BFS Group Limited, which is a wholly-owned subsidiary of Bidvest Group Limited, an international services, trading and distribution company listed on the JSE Securities Exchange in South Africa. Turnover for the Group in the year ended 30 June 2011 was £1.8 billion. However, turnover for 3663 alone in the financial year ended 30 June 2012 was £1.1 billion.
‡CJ Lang & Son disposed of its cash-and-carry division in 2010.
§Blakemore Foodservice is the delivered foodservice arm of AF Blakemore, a group comprising retail, wholesale, distribution and shop-fitting operations. AF Blakemore's revenue for the year ended 30 April 2011 was £912 million. About £99 million of this revenue relates to Blakemore Foodservice.
Note: N/A = not applicable.

Specialist wholesalers

12. Specialist wholesalers include traditional market-based wholesale traders and larger cash-and-carry or delivered operators. The key characteristics of specialist wholesalers are:

  (a) Specialist wholesalers specialize in the supply of a limited range of products.

  (b) The operations are typically smaller than the operations of cash-and-carry and delivered wholesalers.

  (c) Specialist wholesalers provide cash-and-carry and/or delivered services usually to high-end retail and foodservice customers.

  (d) The range of products offered to customers is small but there is usually a wide selection of different brands within each product range.

13. The leading specialist wholesalers are summarized in Table 5.

TABLE 5 **Specialist wholesalers**

Name	*Turnover £m*	*Sector*	*Area of operation*	*Member of symbol or buying group*
Smiths News*	1,734	Newspapers & magazines	UK	N/A
Menzies Distribution	1,337	Newspapers & magazines	UK	N/A
Bunzl Catering†	997	Catering	UK	N/A
Matthew Clark Wholesale	668	BWS	UK	N/A
Staples	316	Office equipment	UK	N/A
Viking Direct	275‡	Office equipment	UK	N/A
HT & Co (Drinks)	220	BWS	UK	Today's§
Fairfax Meadow	144	Meat	London	N/A
Reynolds Catering Supplies	130	Fruit & vegetables & dairy	UK	N/A
Hancock Cash and Carry	101	Confectionery	UK	N/A
Westone Wholesale	23	BWS	UK	Sugro
Courtney & Nelson	18	Confectionery	UK	Sugro
LWC	Not disclosed	BWS	UK	N/A
Tradeteam	Not disclosed	BWS	UK	N/A
Lancashire Foods	Not disclosed	Soft drinks	UK	N/A

Source: Booker; latest company accounts; company websites; and FWD/Wholesale News—Retail Review 2013.

*Smiths News is comprised of Smiths News (newspapers and magazines), Bertrams (books), Dawson (books to schools and universities) and Dawson Media Direct (newspapers and magazines to airlines).
†Bunzl Catering is part of a group of companies headed by Bunzl plc. The group's turnover in the UK and Republic of Ireland for the year ended 31 December 2011 was £996.6 million.
‡Viking Direct is a subsidiary of Office Depot Inc, one of the world's largest suppliers of office stationery. Office Depot International (UK) Limited's turnover for the year ended 25 December 2010 was £294.3 million.
§HT & Co (Drinks) is a member of Today's buying group.

Symbol groups

14. Symbol groups are groups of convenience stores, some of which may operate under a franchise agreement, and trade under a common fascia (symbol). Some cash-and-carry and delivered wholesalers operate their own symbol groups. For example, Booker operates Premier, a convenience store symbol group with over 2,700 member stores.

15. Being a member of a symbol group gives a retailer access to shop-fitting, equipment and training, which can reduce costs compared with remaining independent. It also gives access to the symbol group owner's promotional offers, which can be used to attract custom. Owning a symbol group allows a wholesaler to offer such support to retailers. In addition, symbol group owners may:

(a) offer members the facility to order through the group's centralized purchasing systems, which allows the group to monitor data, which is subsequently used in negotiations with suppliers;

(b) promote a list of core products to be sold in all member stores; and

(c) support the group's own-label development by offering the products for sale once available.

16. The leading symbol groups are summarized in Table 6.

TABLE 6 **Symbol groups**

Name	*Turnover £m*	*Sector*	*Area of operation*
Musgrave*	3,713†	Grocery	UK
Spar	3,000	Grocery	UK
Today's*	1,500	Grocery & foodservice	UK
Costcutter‡	633	Grocery	UK
Sugro UK*	Not disclosed	Grocery	UK
Nisa*	1,579	Grocery	UK
Premier	Not disclosed	Grocery	UK

Source: Booker; and latest company accounts.

*Musgrave, Today's, Sugro UK and Nisa operate both symbol and buying groups.
†Musgrave's annual turnover for the year ended 31 December 2011 was reported as €4,456 million. The turnover recorded above is in sterling and is based on an exchange rate of 1.2 as at 31 December 2011 (source: www.xe.com). The Musgrave group includes the Londis, Supervalu, Budgens, Daybreak, Mace (Northern Ireland), Centra, Musgrave Marketplace, Musgrave Food Services, dialsur and Dialprix symbols.
‡In March 2013 the Costcutter symbol group announced a change in its future distribution contract whereby Palmer & Harvey will replace Nisa as its primary distributor once the Nisa contract expires. Alongside this transaction, the parties have agreed to establish a joint venture negotiating entity called The BuyCo Limited. This new company will negotiate terms on behalf of its members representing a purchasing requirement of around £5 billion.

Buying groups

17. Buying groups are affiliations of several wholesalers established to obtain more favourable terms from suppliers than each wholesaler could achieve individually.

18. Benefits of buying group membership include securing better purchasing terms with suppliers through the centralization of procurement functions (effectively replicating the purchasing power of the larger wholesalers), promotional and marketing support and own-label development.

19. The process for joining a buying group usually takes between four and six weeks and membership is usually free. There are different levels of membership, reflecting different levels of commitment and corresponding benefits.

20. The leading buying groups are summarized in Table 7.

TABLE 7 **Buying groups**

Name	*Turnover £m*	*Sector*	*Area of operation*
Today's*	5,400	Grocery & foodservice	UK
Musgrave*	3,713†	Grocery	UK
Landmark	2,600	Grocery & foodservice	UK
Confex	1,650	Grocery & foodservice	UK
Nisa*	1,579	Grocery	UK
Sugro UK*	680	Grocery	UK
Sterling Supergroup	350	Grocery & foodservice	UK
Fairway Foodservice	250	Foodservice	UK
Caterforce	200	Foodservice	UK
Country Range	Not disclosed	Foodservice	UK

Source: Booker; latest company accounts; and FWD/Wholesale News—Retail Review 2012 and 2013.

*Musgrave, Today's, Sugro UK and Nisa operate both symbol and buying groups.
†Musgrave's annual turnover for the year ended 31 December 2011 was reported as €4,456 million. The turnover recorded above is in sterling and is based on an exchange rate of 1.2 as at 31 December 2011 (source: www.xe.com). The Musgrave group includes the Londis, Supervalu, Budgens, Daybreak, Mace (Northern Ireland), Centra, Musgrave Marketplace, Musgrave Food Services, dialsur and Dialprix symbols.

Suppliers

21. In addition to purchasing from the various types of wholesalers described above, customers can also source directly from suppliers. Moreover, some suppliers have their own wholesale operations such as Coors, Food Partners and Kerry Foods.

22. The leading direct suppliers are summarized in Table 8.

TABLE 8 **Direct suppliers**

Name	*Turnover £m*	*Sector*	*Area of operation*
Dairy Crest	1,632	Dairy & manufacturing	UK
Muller Wiseman Dairies	917	Dairy & manufacturing	UK
Samworth Brothers	745	Chilled	UK
Allied Bakeries	692	Bread & morning goods	UK
Kerry Foods	637	Chilled	UK
Warburtons	500	Bread & morning goods	UK
Food Partners	92	Food to go	UK
Peter's Food Service	70	Chilled	England & Wales
Coca-Cola	[✂]	Soft drinks	UK

Source: Latest available company accounts and company websites.

Financial background

Introduction

1. This appendix provides a brief history of Booker and Makro and an overview of their recent financial performance.

Booker

Current structure and history

2. Booker has been a wholesaler of food and non-food products since 1956.

3. In February 2005, The Big Food Group Plc (consisting of Booker, Iceland and Woodward Foodservice) was acquired by a number of private retail investors. Around this time Booker was experiencing financial difficulties. On 1 November 2005, Booker appointed a new CEO and management team. Booker told us that, in order to address its financial difficulties at the time, a three-pronged strategy was implemented to turn the business around. This strategy comprised improving cash management by simplifying buying and selling activities and improving stock availability; increasing customer responsiveness and broadening the business by extending ranges (including a new 'value' range); and reducing prices and improving speed of service (including through the expansion of its delivery service, which has grown from £0.17 billion sales in 2005 to over £1 billion sales in 2012).

4. Booker has been listed on the Main Market of the London Stock Exchange since July 2009.

Recent financial performance

Trading performance

5. 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: £2.8 billion (72 per cent) from the cash-and-carry business and £1.1 billion (28 per cent) from the delivered business. 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.

6. Booker's total sales of £3.9 billion were primarily from retailers (£2.6 billion) and caterers (£1.2 billion) (see Figure 1). Sales to both of these customer types increased by 6.1 per cent from the previous financial year.[1] Of the total sales of £3.9 billion, £1.5 billion were tobacco sales. The important contribution of tobacco sales to Booker's overall sales is shown in Table 1. Of the remaining non-tobacco sales of £2.4 billion, the highest-selling product types were BWS and grocery products (see Figure 2).

[1] Booker Annual Report and Accounts 2012, p2.

TABLE 1 **Booker sales, 2008 to 2012**

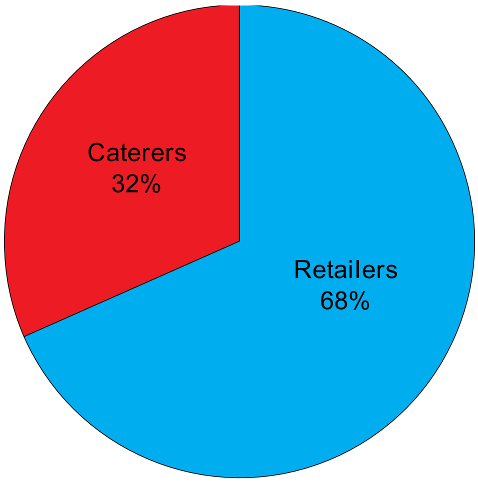
	Financial years ended 31 March				
	2008	*2009*	*2010*	*2011*	*2012**
Total sales (£bn)	3.08	3.18	3.39	3.60	3.86
Tobacco sales (£bn)	1.24	1.23	1.30	1.36	1.47
% of total sales (%)	40.3	38.7	38.3	37.8	38.1
Non-tobacco sales (£bn)	1.84	1.95	2.09	2.24	2.39
% of total sales (%)	59.7	61.3	61.7	62.2	61.9

Source: Booker Annual Report and Accounts 2012.

*The financial year ended 31 March 2012 was a 53-week reporting period. The analysis above is based on 52 weeks in 2012 to allow for an accurate comparison with previous years.

FIGURE 1

Booker's 2012 sales by customer type



Source: Booker Annual Report and Accounts 2012.
Note: Sales to other traders (SCOs and PBUs) were £0.08 billion.

FIGURE 2

Booker's 2012 sales by product type

[✄]

Source: Booker.

7. Booker's recent trading performance is summarized in Table 2.

TABLE 2 **Booker profit and loss account, 2008 to 2012**

£ million

	Financial years ended 31 March				
	2008	*2009*	*2010*	*2011*	*2012**
Revenue	3,078.2	3,179.2	3,386.9	3,595.8	3,932.8
Cost of sales	–2,987.1	–3,077.0	–3,271.9	–3,466.9	–3,784.1
Gross profit	91.1	102.2	115.0	128.9	148.7
Administrative expenses	–45.0	–44.4	–48.4	–52.4	–59.1
Operating profit	46.1	57.8	66.6	76.5	89.6
Financing income/(costs)	–9.9	–10.6	–9.4	–5.1	1.2
Profit before tax	36.2	47.2	57.2	71.4	90.8
Tax	–6.4	–8.0	–9.6	–12.3	–15.9
Profit after tax	**29.8**	**39.2**	**47.6**	**59.1**	**74.9**
					per cent
Gross profit margin	3.0	3.2	3.4	3.6	3.8
Net profit margin†	1.5	1.8	2.0	2.1	2.3

Source: Booker statutory accounts.

*The financial year ended 31 March 2012 was a 53-week reporting period.
†Net profit margin is calculated by dividing operating profit by turnover.

8. Margin improvement since 2008 has been driven by the 'Choice Up, Prices Down and Better Service' programme, which has improved Booker's product mix and cost control.

Financial position

9. Booker's balance sheet position is summarized in Table 3.

TABLE 3 **Booker balance sheet, 2008 to 2012**

					£ million
	Financial years ended 31 March				
	2008	*2009*	*2010*	*2011*	*2012**
Non-current assets					
Property, plant and equipment	60.2	58.2	59.5	60.5	71.9
Intangible assets	423.9	423.9	423.9	437.3	437.1
Other non-current assets	15.4	12.3	17.1	13.7	13.8
	499.5	494.4	500.5	511.5	522.5
Current assets					
Inventories	184.7	196.8	214.1	220.4	268.5
Trade and other receivables	54.3	63.6	72.2	87.1	81.7
Cash and cash equivalents	41.0	20.4	43.7	46.2	63.5
	280.0	280.8	330.0	353.7	413.7
Total assets	**779.5**	**775.2**	**830.5**	**865.2**	**936.5**
Current liabilities					
Interest-bearing loans and borrowings	–0.3	–0.2	-	–0.3	–0.1
Trade and other payables	–347.9	–364.8	–408.8	–424.2	–471.8
Other current liabilities	–18.5	–20.5	–19.6	–17.1	–15.2
	–366.7	–11.6	–428.4	–441.6	–487.1
Non-current liabilities					
Interest-bearing loans and borrowings	–87.9	–45.1	–36.7	–18.8	-
Other non-current liabilities	–70.3	–69.9	–88.2	–70.9	–80.0
	–158.2	–115.0	–124.9	–89.7	–80.0
Total liabilities	**–542.9**	**–512.1**	**–553.3**	**–531.3**	**–567.1**
Net assets	**254.6**	**263.1**	**277.2**	**333.9**	**369.4**

Source: Booker statutory accounts.

*The financial year ended 31 March 2012 was a 53-week reporting period.

10. Booker's strong balance sheet is driven by its sustained revenue and profit growth, allowing the business to expand primarily through the use of retained profits rather than through the use of external financing.

11. Booker's recent capital expenditure is summarized in Table 4.

TABLE 4 **Booker capital expenditure, 2008 to 2012**

					£ million
	Financial years ended 31 March				
	2008	*2009*	*2010*	*2011*	*2012**
Actual	[✂]	[✂]	[✂]	[✂]	[✂]
Forecast	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Booker management accounts.

*The financial year ended 31 March 2012 was a 53-week reporting period.

12. The major capital expenditure items in the financial year ended 31 March 2012 were the conversion of branches to the 'Extra' format[2] (£[✂] million), other branch expenditure (£[✂] million) and logistics (£[✂] million).[3]

[2] The Extra format is a lighter, brighter and more modern format of the traditional store fit and layout.
[3] Booker management accounts.

Cash flow

13. Booker's cash flow position is summarized in Table 5.

TABLE 5 **Booker cash flow statement, 2008 to 2012**

£ million

	Financial years ended 31 March				
	2008	*2009*	*2010*	*2011*	*2012**
Cash flow from operating activities	[✂]	[✂]	[✂]	[✂]	[✂]
Cash flow from investing activities	[✂]	[✂]	[✂]	[✂]	[✂]
Cash flow from financing activities	[✂]	[✂]	[✂]	[✂]	[✂]
Net increase in cash and cash equivalents	[✂]	[✂]	[✂]	[✂]	[✂]
Cash and cash equivalents b/f	[✂]	[✂]	[✂]	[✂]	[✂]
Cash and cash equivalents c/f	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Booker statutory accounts.

*The financial year ended 31 March 2012 was a 53-week reporting period.

14. Booker's cash surplus of £63.5 million in the financial year ended 31 March 2012 is driven by its strong recent trading performance.

Key performance indicators

15. The principal key performance indicators (KPIs) used to monitor Booker's financial performance are operating profit and levels of net debt relative to cash. Booker's recent performance against these KPIs is summarized in Table 6.

TABLE 6 **Booker KPIs, 2008 to 2012**

£ million

	Financial years ended 31 March				
	2008	*2009*	*2010*	*2011*	*2012**
Operating profit	[✂]	[✂]	[✂]	[✂]	[✂]
Net cash/(debt) – actual	[✂]	[✂]	[✂]	[✂]	[✂]
Net cash/(debt) – forecast	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Booker management accounts.

*The financial year ended 31 March 2012 was a 53-week reporting period.

16. Other key non-financial measures are customer satisfaction and health and safety. Customer satisfaction is measured by branch on a quarterly basis and separate scores are recorded for the responses from retail and catering customers. Each branch receives a quarterly score for a number of competencies, including product choice, price and customer service. The four quarterly scores provide an average annual score, which is compared with the scores in the preceding two financial years, in order to assess the branch's recent customer satisfaction performance. With regard to health and safety, a report is produced at each month end, which summarizes the key accident statistics and compares with the previous year's performance. It also details any reported injuries and serious issues and consequent enforcement activity.

Makro

Current structure and history

17. Makro entered the wholesale market in 1971 with its first store in Eccles near Manchester.[4] It was acquired in 1998 by Metro, a German-based international wholesale and retail operator.

18. Makro operated a primarily cash-and-carry business, having only introduced a delivered service in 2009.

19. Makro's recent history had been one of poor financial performance—it had been loss-making since 2006.

20. [✂]

21. We were told by Booker that Metro took a number of steps to address Makro's financial performance, including:

    (a) In 2009, Makro's Coventry, Swansea and Wolverhampton cash-and-carry branches were closed and subsequently disposed of, reducing Makro's store portfolio from 33 to 30 branches.

    (b) [✂]

    (c) [✂]

    (d) [✂]

22. [✂]

23. [✂]

24. [✂]

25. [✂]

Recent financial performance

Trading performance

26. Makro's recent trading performance is summarized in Table 7.

27. [✂][5]

28. [✂]

29. In the financial year ended 31 December 2011, Makro reported sales of £766.2 million and operating EBIT of –£29.6 million, [✂].

30. [✂]

31. [✂]

---

[4] www.makro.co.uk/public/uk/Home/About+Makro.
[5] [✂]

32. The decline in sales accelerated after the introduction of the ban on the display of tobacco in April 2012. This ban mainly applies to large retailers at present but also applies to wholesalers that sell tobacco to the public.[6] [✂]

TABLE 7 **Makro profit and loss account, 2008 to 2012**

	Financial years ended 31 December						*£ million*
	2008 Actual	*2009 Actual*	*2010 Actual*	*2011 Actual*	*2012 Forecast*	*2012 YTD**	*2012 Revised forecast†*
Revenue	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Cost of sales	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Other operating income	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Gross profit	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Expenses	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Operational EBIT	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Extraordinary items	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Unadjusted EBIT	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Service fee adjustment	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Adjusted EBIT	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
							per cent
Gross profit margin	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Operational EBIT margin‡	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Makro management accounts.

*2012 year to date (YTD) figures represents trading performance from 1 January 2012 to 30 November 2012.
†The 2012 revised forecast is based on actual figures to 30 November 2012 and forecast figures for December 2012.
‡Operational EBIT margin is calculated by dividing operating EBIT by turnover.

33. The sales decline from 2008 to 2011 (10.3 per cent on a like-for-like basis) is primarily the result of the decline in non-food sales, which decreased by [✂] per cent in this period. In contrast, food sales grew by [✂] per cent in this period (see Figures 3 and 4). The decline in margin from 2008 to 2011 was the result of the overall decline in sales, but more specifically, the adverse impact of the fall in high margin non-food sales and high levels of promotions on top-selling products.

FIGURE 3

Makro's 2008 like-for-like sales by product type

[✂]

Source: Makro management accounts.

FIGURE 4

Makro's 2011 like-for-like sales by product type

[✂]

Source: Makro management accounts.

Financial position

34. Makro's balance sheet position is summarized in Table 8.

[6] For more information on the prohibition of tobacco displays, see www.legislation.gov.uk/ukpga/2009/21/section/21.

TABLE 8 **Makro balance sheet, 2008 to 2011**

				£ million
	Financial years ended 31 December			
	2008	*2009*	*2010*	*2011*
Non-current assets				
Tangible assets	[✂]	[✂]	[✂]	[✂]
Intangible assets	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Current assets				
Receivables and sundry assets	[✂]	[✂]	[✂]	[✂]
Inventories	[✂]	[✂]	[✂]	[✂]
Prepaid expenses and deferred charges	[✂]	[✂]	[✂]	[✂]
Liquid assets	[✂]	[✂]	[✂]	[✂]
Deferred taxes	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Total assets	[✂]	[✂]	[✂]	[✂]
Current liabilities				
Financial debt	[✂]	[✂]	[✂]	[✂]
Trade payables	[✂]	[✂]	[✂]	[✂]
Accruals	[✂]	[✂]	[✂]	[✂]
Tax	[✂]	[✂]	[✂]	[✂]
Deferred tax	[✂]	[✂]	[✂]	[✂]
Deferred income	[✂]	[✂]	[✂]	[✂]
Other liabilities	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Non-current liabilities				
Payables due to consolidated and group companies	[✂]	[✂]	[✂]	[✂]
Total liabilities	[✂]	[✂]	[✂]	[✂]
Net assets	[✂]	[✂]	[✂]	[✂]

Source: Makro management accounts.

35. The net working capital position decreased significantly by £27.4 million in 2011, [✂].

36. [✂]

37. Makro's recent capital expenditure is summarized in Table 9.

TABLE 9 **Makro capital expenditure, 2008 to 2011**

			£ million
Financial years ended 31 December			
2008	*2009*	*2010*	*2011*
[✂]	[✂]	[✂]	[✂]*

Source: Makro management accounts.

*Capital expenditure in 2011 includes [✂].

38. [✂]

Cash flow

39. Makro's cash flow position is summarized in Table 10.

TABLE 10 **Makro cash flow statement, 2009 to 2011**

			£ million
	Financial years ended 31 December		
	2009	*2010*	*2011*
Cash flow from operating activities	–16.7	–18.1	–21.2
Cash flow from investing activities	–31.0	–11.9	–8.1
Cash flow from financing activities	44.2	48.8	1.8
Net increase in cash and cash equivalents	**–3.5**	**18.8**	**–27.5**
Cash and cash equivalents b/f	25.3	21.8	40.6
Cash and cash equivalents c/f	**21.8**	**40.6**	**13.1**

Source: Shareholder circular posted by Booker, 15 June 2012.

40. [✂] The cash outflow from operating activities from 2009 to 2011 reflects Makro's weak trading performance in that period.

Key performance indicators

41. The principal KPIs used to monitor Makro's financial performance were like-for-like sales, margin, personnel expenses, operational EBIT and EBITDA and stock levels. Makro's recent performance against these KPIs is summarized in Table 11.

TABLE 11 **Makro KPIs, 2008 to 2011**

	Financial years ended 31 December			
	2008	*2009*	*2010*	*2011*
Like-for-like sales* (£m)	[✂]	[✂]	[✂]	[✂]
Prior year difference (%)	[✂]	[✂]	[✂]	[✂]
Margin* (%)	[✂]	[✂]	[✂]	[✂]
Prior year difference (%)	[✂]	[✂]	[✂]	[✂]
Personnel expenses (£m)	[✂]	[✂]	[✂]	[✂]
Prior year difference (%)	[✂]	[✂]	[✂]	[✂]
Operational EBIT (£m)	[✂]	[✂]	[✂]	[✂]
Prior year difference (%)	[✂]	[✂]	[✂]	[✂]
Operational EBITDA (£m)	[✂]	[✂]	[✂]	[✂]
Prior year difference (%)	[✂]	[✂]	[✂]	[✂]
Stock*† (£m)	[✂]	[✂]	[✂]	[✂]

Source: Makro management accounts.

*Like-for-like sales, margin and stock level are also split into food and non-food KPIs and also monitored at this level.
†The [✂] was a key component of AlixPartners' turnaround plan (see paragraph 27 for further information).

42. Makro also monitored performance by a number of other financial metrics, which are summarized in Table 12. Although the frequency of visits had remained constant since 2008 and the sales per visit and sales per customer increased between 2008 and 2011, the number of buying customers and number of visits declined by a greater margin over the same period and corresponds with the overall pattern of declining sales since 2006.

TABLE 12 **Makro non-financial KPIs, 2008 to 2011**

	Financial years ended 31 December			
	2008	*2009*	*2010*	*2011*
Number of buying customers	[✂]	[✂]	[✂]	[✂]
Prior year difference (%)	[✂]	[✂]	[✂]	[✂]
Number of visits	[✂]	[✂]	[✂]	[✂]
Prior year difference (%)	[✂]	[✂]	[✂]	[✂]
Frequency	[✂]	[✂]	[✂]	[✂]
Prior year difference (%)	[✂]	[✂]	[✂]	[✂]
Sales per visit (£)	[✂]	[✂]	[✂]	[✂]
Prior year difference (%)	[✂]	[✂]	[✂]	[✂]
Sales per customer (£)	[✂]	[✂]	[✂]	[✂]
Prior year difference (%)	[✂]	[✂]	[✂]	[✂]

Source: Makro management accounts.

Survey completed by GfK for Booker, summer 2012

Introduction

1. The parties commissioned a survey of customers during the OFT stage of the merger inquiry. This appendix describes the survey design and sets out some reanalyses of the survey data set conducted by the CC.

Methodology

2. In August 2012, the parties appointed the market research agency GfK to conduct a sample survey of Booker and Makro customers. OFT statisticians were involved in the development of the questionnaire including a suite of diversion questions. The survey covered a sample of retailers and caterers drawn from the customer lists of Booker and Makro stores in 23 local areas: the 22 areas identified by OFT as needing further assessment after its initial filter (based on fascia counts) and one additional area that was used to pilot the survey. A total of 3,996 responses were obtained by telephone interview.

3. A target was set of 100 responses per store—50 retailers and 50 caterers. The number of achieved responses was below target in some areas, leading to wide confidence intervals for estimates of diversion ratios and significant potential for response bias. We understand that in some areas these low response numbers were due to customer lists being exhausted; in others the fieldwork ran out of time. Given that large customers can account for a high proportion of overall sales, interviewers tried to maximize the number of responses from these customers.

4. While the overall design and conduct of the survey followed good practice,[1] there are some qualifications to the results. First, the survey was conducted within a short timescale and at an unusual time, with the fieldwork taking place between the 2012 Olympic and Paralympic Games. The resulting response rate of 15 per cent is lower than might otherwise be expected and the achieved sample was well below target in some areas.

5. Results were limited in areas where two or more Booker stores were in competition with a Makro. In these areas only one Booker store was surveyed (eg customers of the Makro store in Preston and the Booker store in Blackburn were surveyed, but not those of the two Booker stores in Blackpool, both of which were within the 30-minute isochrone of the Makro store).

6. The questions were generally well designed, although the banded scales of some questions made some calculations difficult. Analysis was also complicated by the inconsistency between the classification of customers (into retailers, caterers and others) on the Booker and Makro customer lists and the way in which customers classified themselves in the survey. Finally, there are many ways in which diversion ratios can be calculated using this data. This is particularly the case for partial basket diversion for which the question wording is ambiguous and routing through the questionnaire appears to have gone awry for some cases during the conduct of the survey.

---

[1] As set out in the CC and OFT's *Good practice in the design and presentation of consumer evidence in merger inquiries*, March 2011.

7. The CC did not commission its own survey. The parties' survey already attempted contact with a high proportion of customers, and particularly of large customers, in the areas of interest. We considered that it was likely to be difficult to persuade customers to respond to a second, similar survey. Furthermore, the responses of customers who had participated in the parties' survey would be likely to be conditioned by their having done so, which would make the results of the latter survey difficult to interpret.

Types of customer

8. The sample for the survey was drawn from customer lists provided by the parties. These were classified into retailers and caterers. Most Makro customers, approximately [✂] per cent by number accounting for approximately [✂] of Makro's sales, are not classified as either retailers or caterers (these are described by Makro as small companies and offices (SCOs)). They were not included in these lists and were therefore excluded from the survey.

9. Question 3[2] of the survey asked respondents to classify their organizations according to the type of activity for which they needed to purchase supplies from wholesalers or retailers, with a follow-up question asking for more detailed information. Table 1 shows that in 40 per cent of cases the respondent's answer was inconsistent with the customer list classification.

TABLE 1 **Customer classification**

Survey classification	*Customer lists classification*			
	Booker		*Makro*	
	Caterer	*Retailer*	*Caterer*	*Retailer*
Caterer	**681***	35	**501***	193
Retailer	252	**463***	140	**752***
Other	174	30	557	218

Source: Parties' survey.

*Customers who are consistently classified.

10. The parties' explanation for this is that it arose because of the difficulty in ensuring that customers responded to the survey question in relation to the specific activities that required them to source grocery supplies (rather than in relation to the wider activities of their organization). The parties had therefore not taken any account of Question 3 in their analysis. While we accepted that some of the survey responses to Question 3 are likely to be incorrect, we believe that the survey question was carefully worded to minimize these errors. Further analysis of the responses to the follow-up question suggested that there were many cases where the customer lists are in error. For example, 201 respondents to the survey with convenience stores self-classified as retailers but were classified as caterers in the parties' lists.

11. Our analysis took the cautious approach of only including those customers who were consistently classified in both the parties' lists and the survey question. This reduced sample sizes but ensured that we could be confident that we had only included

[2] '3. What type of activity does your organisation carry out that means you need to purchase supplies from wholesalers or retailers? [SINGLE CODE – READ OUT]

a. Retail (eg convenience store, petrol forecourt, off licence)
b. Catering and leisure (e.g hotels, restaurants, cafes, pubs, nightclubs)
c. Other business type (e.g craftsman, charity)
d. Other business type (e.g craftsman, charity)'

customers who were of the type that we are reporting on. A further category, entitled 'Whole sample', is presented in most of the tables in this appendix. This includes all customer types and is not a simple combination of caterers and retailers (although it has the same coverage of cases as the 'retailers and caterers' in the parties' analysis of the survey).

12. Table 2 shows a more detailed breakdown of the caterers we have used in our analysis. It shows that the parties have similar customer compositions of caterer types. In contrast, Table 3 shows some differences among their customers who are retailers; a [✂] proportion of Booker's retail customers have convenience stores, whereas nearly a [✂] of Makro's retail customers fall into the 'Other retail' category.

TABLE 2 **Booker and Makro customers: caterer types**

per cent

Caterer type	*Booker*	*Makro*
Public house	[✂]	[✂]
Nightclub	[✂]	[✂]
Accommodation (B&B, hotel)	[✂]	[✂]
Restaurant or cafe	[✂]	[✂]
Cafe	[✂]	[✂]
Fast food/takeaway	[✂]	[✂]
Educational	[✂]	[✂]
Other catering	[✂]	[✂]
All caterers	100	100
Base	*681*	*501*

Source: Parties' survey.

TABLE 3 **Booker and Makro customers: retailer types**

per cent

Retailer type	*Booker*	*Makro*
'Premier' convenience store	[✂]	[✂]
Other symbol group convenience store	[✂]	[✂]
Independent convenience store	[✂]	[✂]
Off-licence	[✂]	[✂]
Confectioner, tobacconist & newsagent	[✂]	[✂]
Petrol station/forecourt	[✂]	[✂]
Other retail	[✂]	[✂]
All retailers	100	100
Base	*463*	*752*

Source: Parties' survey.

Sources of supply

13. The survey asked respondents a series of questions on their sources of supply and the proportion of their overall expenditure spent with each of the parties' stores.

Table 4 shows the total level of purchases across all suppliers[3] for Booker and Makro customers. The profile is similar for Booker and Makro catering customers and also for Booker and Makro retail customers.

TABLE 4 **Average expenditure per month across all suppliers**

per cent

	Booker			*Makro*		
Monthly expenditure	*Caterers*	*Retailers*	*Whole sample*	*Caterers*	*Retailers*	*Whole sample*
<£500	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
£501–£1,000	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
£1,001–£3,000	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
£3,001–£10,000	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
>£10,000	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Not known	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Base	*681*	*463*	*1,635*	*501*	*752*	*2,361*

Source: Parties' survey.

*This data is not strictly comparable because the Booker sampling frame drawn for the purpose of the survey only included customers who had spent £200 or more in the last three months.

14. Booker and Makro customers showed similar patterns of responses to the survey question that asked them which types of supplier they would consider buying from. More than half said they would consider delivered options. The largest difference between retail and catering customers is the high proportion of the latter that would consider purchasing from supermarkets.

TABLE 5 **Proportion of customers who would consider buying from each supply channel**

per cent

	Booker			*Makro*		
Supply channel	*Caterers*	*Retailers*	*Whole sample*	*Caterers*	*Retailers*	*Whole sample*
Cash & carry—collect	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Cash & carry—delivery	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Delivered wholesaler	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Symbol group wholesaler	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Specialist food or drink wholesaler	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Specialist non-food wholesaler	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Supermarkets	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Discount retailers	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Direct supply from manufacturer	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Mail order/online	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Base	*681*	*463*	*1,635*	*501*	*752*	*2,361*

Source: Parties' survey.

[3] The survey question is as follows:
'I want you to think about all the channels of supply that you use. In a typical **month**, what is the approximate value of all the purchases your organisation would make from its suppliers? [SINGLE CODE – READ OUT]

a. Less than £500
b. £501 to 1000
c. £1,001 to 3000
d. £3001 to 10,000
e. Over £10,000
f. I would rather not say
g. Don't know'

15. Very few customers used their local Booker or Makro store for all their purchases, the majority using more than three suppliers. Table 6 shows a similar pattern of number of suppliers used by Booker and Makro customers.

TABLE 6 **Number of suppliers***

per cent

	Booker			*Makro*		
Number of suppliers	*Caterers*	*Retailers*	*Whole sample*	*Caterers*	*Retailers*	*Whole sample*
Only 1 supplier	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2–3 suppliers	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
4–5 suppliers	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
6–10 suppliers	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
11–20 suppliers	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
More than 20 suppliers	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Base	*681*	*463*	*1,635*	*501*	*752*	*2,361*

Source: Parties' survey.

*Number of different suppliers purchased from in a typical month.

16. Table 7 shows that patterns remain similar for Booker and Makro catering customers when the proportion of spend is considered. However, spending patterns are very different for retailers, with Booker customers typically spending a much higher proportion in Booker stores.

TABLE 7 **Proportion of spend in Booker/Makro***

per cent

	Booker			*Makro*		
Wallet share	*Caterers*	*Retailers*	*Whole sample*	*Caterers*	*Retailers*	*Whole sample*
None	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
1–10%	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
11–30%	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
31–50%	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
51–75%	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
76–100%	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Don't know	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Base	*681*	*463*	*1,635*	*501*	*752*	*2,361*

Source: Parties' survey.

*Proportion of spending on supplies sourced from Booker/Makro in the last three months.

17. These patterns are accentuated when this table is reanalysed using only the sample of large customers. Patterns of expenditure remain very similar among caterers, but large retail customers of Makro tend to source only a small proportion of their supplies from Makro stores. In contrast, a [✂] of Booker's large retail customers made most of their purchases in Booker stores.

TABLE 8 **Proportion of spend in Booker/Makro among large customers***

per cent

Wallet share	*Booker* Caterers	Retailers	Whole sample	*Makro* Caterers	Retailers	Whole sample
None	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
1–10%	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
11–30%	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
31–50%	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
51–75%	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
76–100%	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Don't know	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Base	*100*	*175*	*398*	*95*	*253*	*532*

Source: Parties' survey.

*Proportion of spending on supplies sourced from Booker/Makro in the last three months among customers with an overall average spend of more than £10,000 per month across all suppliers.

Last visit

18. The survey asked a suite of questions relating to the respondent's most recent purchases from Booker/Makro. Table 9 shows how much was spent on the last purchase. The patterns are consistent with those shown in other tables, particularly Table 8 of the previous section. Again, we can see the similarity of spend patterns between Booker and Makro catering customers (although average expenditure is [✂] per cent higher in Makro stores). However, Booker retailers spent, on average, nearly [✂] times as much on their last purchase compared with Makro retail customers.

TABLE 9 **Spend on most recent purchase***

per cent

Spend	*Booker* Caterers %	Retailers %	Whole sample %	*Makro* Caterers %	Retailers %	Whole sample %
£50 or less	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
£51–£100	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
£101–£250	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
£251–£500	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
£501–£750	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
£751–£1,000	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
£1,001–£1,500	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
£1,501–£2,000	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
More than £2,000	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Don't know	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Base	*681*	*463*	*1,635*	*501*	*752*	*2,361*
Average spend (£)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Parties' survey.

*These data are not strictly comparable because the Booker sampling frame only included customers who had spent £200 or more in the last three months.

19. The level of expenditure is reflected in the types of products purchased. The pattern of purchases is again very similar among catering customers of the two parties. Booker's retail customers tended to purchase a greater range of products. The majority of them ([✂] per cent) included tobacco among the goods purchased.

TABLE 10 **Products purchased on last visit**

per cent

Spend	*Booker*			*Makro*		
	Caterers	*Retailers*	*Whole sample*	*Caterers*	*Retailers*	*Whole sample*
Beers, wines and spirits	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Tobacco	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Ambient grocery products	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Chilled food	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Frozen food	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Soft drinks	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Confectionery	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Non-food disposable products	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Non-food durable products	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Don't know/can't remember	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Base	*681*	*463*	*1,635*	*501*	*752*	*2,361*

Source: Parties' survey.

20. Most customers responding to the survey had made their most recent purchase at the parties' stores by visiting them. Booker's delivery service was used by [✂] per cent of their customers, with only [✂] per cent of Makro customers using the delivery option. The proportion of online purchases is small from Booker and Makro stores.

TABLE 11 **Mode of purchase on last visit**

per cent

Mode	*Booker*			*Makro*		
	Caterers	*Retailers*	*Whole sample*	*Caterers*	*Retailers*	*Whole sample*
In store	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Purchase online & collect in store	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Using the delivery service	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Don't know	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Base	*681*	*463*	*1,635*	*501*	*752*	*2,361*

Source: Parties' survey.

Diversion

21. The parties, in their submission of survey evidence to the OFT, set out estimates of diversion ratios[4] from Booker to Makro and from Makro to Booker for the customers of each of the surveyed stores and with a further breakdown into catering and retail customers. The OFT subsequently asked for these ratios to be recalculated eliminating own-branch diversion (where, for example, a Booker customer said that they would divert their spending to another Booker store). The OFT also decided to look at diversion ratios for Makro branches exclusive of SCO customers. SCO customers were not surveyed and the parties had made the assumption that there was zero diversion for these customers from Makro to Booker. For the purpose of our analysis we followed the OFT's approach in both these matters.

[4] The diversion ratios are estimated from a suite of questions of which the main one is as follows:
'I now 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).
Think about the particular products you bought, and where you would most likely have purchased these products. Which of the following best describes what you would have done? [SINGLE-CODE READ OUT]

a. Purchased all the goods at a different branch of [Booker/Makro] instead
b. Purchased all the goods from one alternative wholesale or retail supplier instead
c. Purchased the goods from a combination of alternative suppliers instead
d. Not purchased the goods at all
e. Don't know.'

22. The figures presented in Table 13 are based on our own reanalysis of the survey data. The main differences in the calculations are as follows:

(a) sample composition of the Catering and Retail categories, as described earlier in this appendix;

(b) treatment of partial basket diversion, where some decisions are required arising from ambiguity in interpretation of one of the survey questions[5] and inconsistency between the data file and the question routing in the questionnaire.[6] Our calculations led to lower estimates of partial basket diversion than the parties; and

(c) weighting by spend. We did not used the parties' weighting based on spend at last visit and a categorization into large and small customers. Instead we weighted responses using only the spend at last visit. As a separate exercise, we weighted by overall spend at Booker/Makro, based on a combination of Questions 8 (total value of purchases from all suppliers in a typical calendar month) and 9 (proportion of purchases made in Booker/Makro) of the survey. We checked the sensitivity of results to these different calculations.

23. Table 12 shows a summary of responses to the diversion questions aggregated across all the surveyed stores. Additionally, for those customers who said that had the Booker/Makro store not been available at the time of their last visit they would have switched all the intended purchases to a single alternative supplier, it provides an analysis of the type of supplier they would have used. This analysis shows that most of this type of diversion would have been to other cash-and-carry stores. Supermarkets and delivered wholesalers were each cited by only a small proportion of Booker and Makro's retail and catering customers.

TABLE 12 **Customer diversion of purchases**

per cent

	Booker			*Makro*		
Responses	*Caterers*	*Retailers*	*Whole sample*	*Caterers*	*Retailers*	*Whole sample*
Full basket diversion to:						
— another store operated by the same party	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
— the other party	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
— non-party cash & carry	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
— delivered wholesale	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
— specialist food wholesale	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
— specialist non-food	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
— symbol group	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
— Supermarket	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
— discount store	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
— uncategorized non-party	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
— don't know	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Split basket diversion	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Purchase not made	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Don't know	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Base	*681*	*463*	*1,635*	*501*	*752*	*2,359*

Source: Parties' survey.

[5] In question 18, seeking information on how much of a respondent's purchases might be switched, it was not clear what proportion was required. The high proportion of respondents giving the same response to questions 16 and 18 suggests that some of them did not answer question 18 as intended.
[6] Data for question 17 in the survey data file, particularly variables Q17009 and Q17023, make no logical sense in some cases in the context of answers to question 15. In other cases they make no logical sense in the context of answers to question 18. These inconsistencies create problems in some cases for interpreting responses to question 19.

TABLE 13 **Aggregate diversion ratios between the merger parties**

per cent

Diversion	*Booker to Makro* Caterers	*Booker to Makro* Retailers	*Booker to Makro* Whole sample	*Makro to Booker* Caterers	*Makro to Booker* Retailers	*Makro to Booker* Whole sample
Partial basket diversion:						
1–25%	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
26–50%	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
51–75%	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
76–99%	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Whole basket diversion	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Diversion ratio	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Weighted by spend:						
Diversion ratio	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Base	*597*	*385*	*1,405*	*461*	*661*	*2,102*

Source: Parties' survey.

24. Diversion ratios between the merger parties are shown in Table 13. For example, it shows that of the 1,405 Booker customers who answered the diversion question, [✂] per cent responded that had the Booker store not been available when they last visited, they would have made all their intended purchases ('whole basket diversion' in the table) in a Makro store instead. A further [✂] per cent said that they would have made up to a quarter of those purchases ('partial basket diversion 1–25%') in a Makro store instead, [✂] per cent would have made between a quarter and a half of those purchases in a Makro store and so on. When all these figures are combined, the total (labelled as 'diversion ratio' in the table) amounts to the equivalent of [✂] per cent of customers making all of their purchases in a Makro store instead.

25. The table shows that diversion from Booker to Makro is mirrored by diversion from Makro to Booker for catering customers; in both directions it is [✂] per cent by proportion of customers and [✂] per cent weighted by spend. This is consistent with all the other survey evidence suggesting that Booker and Makro have similar patterns of trading with their catering customers (the main difference being that Booker delivers more to caterers than Makro does). In contrast, there is a large asymmetry between diversion ratios from Booker to Makro and Makro to Booker among retail customers. Only a small proportion of the Booker customers—[✂] per cent—would divert their purchasing to Makro stores while [✂] per cent of Makro's retail customers would divert to Booker Stores.

26. We calculated diversion ratios on the same basis for the customers of individual Booker and Makro stores. At these levels sample sizes are too small for the resulting estimates to be useful in their own right. We had no particular reasons for thinking that there were any large biases affecting these survey estimates, but confidence intervals were wide due to sampling error and for this reason the local area diversion ratios were not robust.

27. When estimates of diversion ratios for individual stores were used as separate observations in an analysis against other variables, for example in the plots against fascia counts presented in Appendix H, then the results were much more robust as they made use of the full survey sample.

28. Whenever diversion ratios were used in analysis during this inquiry, we checked that the results were robust to different methods of calculation; those presented above, the original estimates calculated by the parties and those specified by the OFT.

National and local competition

1. This appendix sets out our analysis of the national market and the nature of national and local competition in UK grocery wholesaling.

2. The analysis of the national market considers market shares of the major competitors in the national market as a whole, and in the retail and catering segments of the market. The local analysis considers the importance of local competition, based on the submissions, documents and views of Booker and Makro and third parties. We set out an analysis of the parties' price data to quantify the importance of local pricing.

The national market

Market size

3. We used data from the IGD to assess the size of the national market. The IGD estimated the UK grocery and foodservice wholesale market to be £27.2 billion in 2012. We noted in Appendix B, footnote to paragraph 2, that other indicators were available, including the ONS estimate of £94.5 billion for food, beverages and tobacco. However, we considered that the IGD estimate was the most appropriate when focusing solely on the wholesale market.

Market shares

Overall

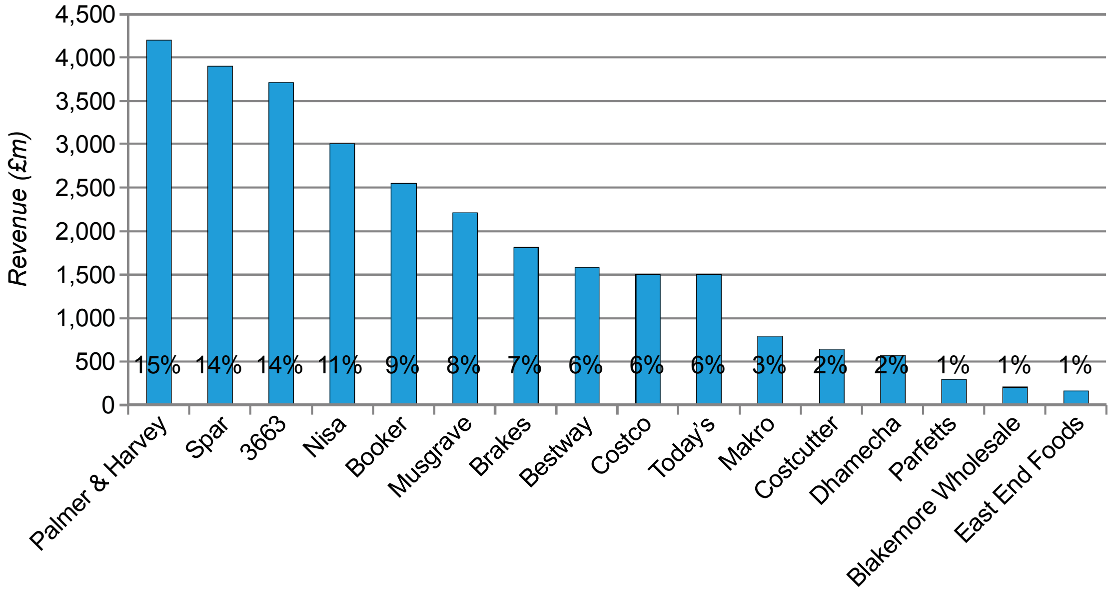
4. Booker said that it believed its share of the overall market (all segments and channels) was 9.9 per cent.[1] We estimated market shares for the parties and competitors based on published revenue figures data which we set out in Figure 1 below.

5. We noted that the revenue figures used for individual competitors were likely to include 'on-trade' and other sales, and therefore the market shares we derived and set out below are likely to be overestimates. However, we consider this to be the most practical approach given the data available, and have taken this into account when interpreting the results.

[1] We explain how Booker derives this figure in Appendix B, paragraph 3.

FIGURE 1

UK grocery and foodservice wholesale market shares



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

6. Figure 1 shows the estimated market shares for the parties and selected competitors, based on their published revenue figures and the IGD estimate of market size. It shows that Palmer and Harvey currently has the largest market share (£4.2 billion), followed by Booker (£3.9 billion) and Musgrave (£3.7 billion). Our estimates of Booker's market share (14.3 per cent) and Makro's market share (2.9 per cent) are both higher than Booker's estimates, which were 9.9 per cent and 2.1 per cent respectively. However, we also noted that our estimate of Booker's share of the overall market was lower than the IGD estimate of 17 per cent.

7. Based on our estimates, the parties' post-merger share of the UK grocery market (all channels and segments) would be 17 per cent.

Cash-and-carry and wholesaling

8. Table 1 sets out an analysis of market shares if the relevant market is considered to be primarily cash-and-carry operators only.

TABLE 1 **Cash-and-carry market shares**

Primarily cash & carry market = £11,636m	*Primarily cash & carry revenue £m*	*Estimated market share %*
Booker	3,900	34
Bestway	2,210	19
Costco	1,502	13
Makro	793	7
Dhamecha	565	5
Parfetts	293	3
East End Foods	160	1
United Wholesale	125	1
Wing Yip	101	1
Hyperama	100	1
TRS Cash & Carry	100	1
BA Cash & Carry	98	1

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

9. Table 1 shows that Booker is the market leader in cash-and-carry wholesaling, followed by Bestway and Costco. We note that Makro was around half the size of Costco, a third of the size of Bestway and around a fifth of the size of Booker. We estimated a combined post-merger market share of 40.3 per cent for the parties.

10. A limitation of the analysis above is that Booker's revenue includes its delivered arm so it is not purely reflective of the strength of its collect-only business. Booker told us that its revenue from its delivered service was approximately £1.1 billion.

11. We considered the market shares for the retail and catering segments separately.

Retail

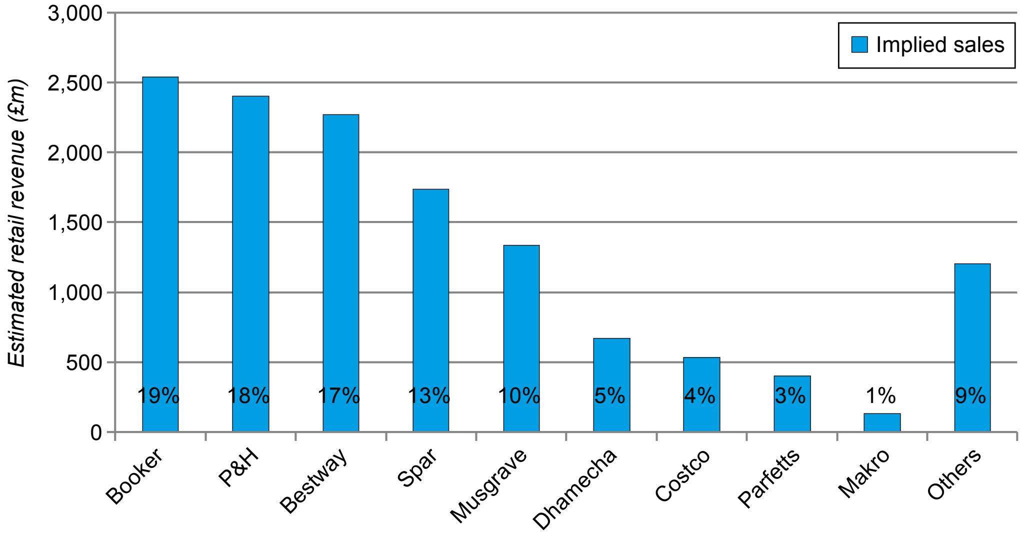
12. Booker told us that its market share of the retail customer segment (all channels) was [✂] per cent, and that Makro's market share was [✂] per cent.

13. We used IGD market share estimates for 2012 for the retail sector to test this view. For Booker, Makro, Bestway and Costco we were able to compare these estimates with internal financial data they supplied to us.[2] The results are presented below.

[2] For Booker and Makro, our figures are derived from requests for information as part of the inquiry. For Bestway and Costco, these figures were provided in responses to third party questionnaires.

FIGURE 2

Market shares in the retail customer segment



Source: CC analysis of IGD data.

14. Figure 2 shows market shares for the parties and competitors in the retail customer segment. Booker, Palmer and Harvey and Bestway all have relatively similar market shares. The IGD figures imply that post-merger the parties' market share in the retail customer segment would be 20 per cent. This differed from Booker's view, which was that post-merger Palmer and Harvey would 'remain the largest supplier to the retailer segment'. Booker told us that if national accounts were included, Palmer and Harvey's annual sales to retailers were £4.16 billion, against Booker's sales to retailers of £2.56 billion.

15. We noted that two of the major regional operators, Dhamecha and Parfetts, have significantly larger shares of the retail market than Makro.

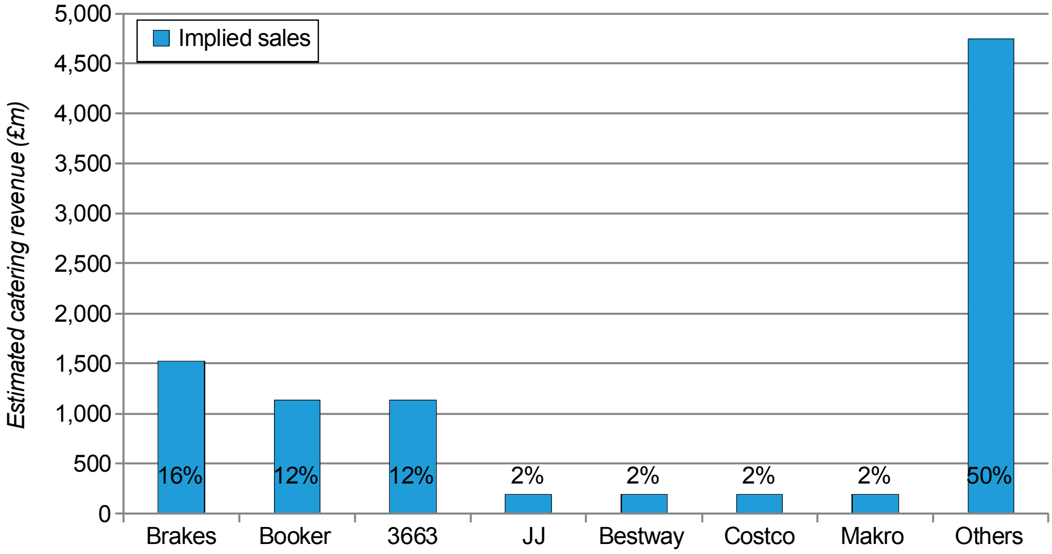
16. We derived the implied sales to retailers suggested by the IGD market share data and compared these with the actual revenue figures supplied from the parties and some third parties. We found that the IGD data broadly reflects wholesalers' revenue from this customer group.

Catering

17. We considered the catering customer segment (all channels) using the same methodology as outlined in paragraph 13. We did not have data that would allow meaningful analysis just of the cash-and-carry purchases of the catering segment.

FIGURE 3

Market shares in the catering customer segment



Source: CC analysis of IGD data.

18. Figure 3 shows the market shares for the parties and competitors in the catering customer segment via all delivery channels. It shows that the market leader at this time is Brakes, followed by Booker and 3663. We also noted that the IGD data estimated JJ, Bestway, Costco and Makro to be of a similar size.

19. We derived the implied sales to caterers suggested by the IGD market share data and compared these with the actual revenue figures supplied from the parties and some third parties. We found that the IGD data broadly reflects the wholesalers' revenue from this customer group.

Conclusions on the national market

20. At the national level, the merger brings together the number 1 and 4 cash-and-carry operators. If we consider other competitors, including delivered foodservice and delivered retail wholesalers, then this is a merger of the 2^{nd} and 11^{th} largest operators, with Makro being far smaller than many of Booker's other competitors.

21. If we consider the retail and the catering segments of the market separately the data shows that Makro is weaker in retail than it is in catering. In fact, two of the regional operators derive a greater level of revenue from retail sales than Makro does on a national level In catering, however, Makro is the second largest cash-and-carry operator behind Booker. There appears to be a broader competitor set overall, with IGD estimating 'Other' suppliers having 50 per cent of the market. Based on this data, the parties' post-merger market share of the catering customer segment is less than 15 per cent.

Local market analysis

22. We considered the nature and importance of local competition in the grocery wholesaling market.

The parties' views

Submissions

Booker

23. Booker said that it competed nationally against a variety of competitors. In its initial submission, Booker said that the parties' main competitors were national, with each of the delivered operators having at least 90 per cent of the UK population within a 4-hour drive-time of one or more of their depots.

24. Booker said that its prices were set centrally, with nearly all promotions and discounts applying nationally. Booker told us that it had [✂] different price tiers which applied on a product and location basis. [✂] However, Booker told us that sales of products on non-standard price tiers was small relative to overall sales, accounting for only about [✂] per cent of sales across the Booker estate, and about [✂] per cent of sales in those stores which have at least one price tier in place. Booker said that [✂] per cent of SKUs, representing [✂] per cent of sales, face local variation, and that this is largely accounted for by sales in Scotland.

25. Booker told us that its pricing was compared against a large range of wholesale suppliers, including cash-and-carry wholesalers, foodservice and multiple retailers.

26. Booker provided us with an analysis of national versus local prices, based on point of sale data from 26 June 2012. This showed that approximately [✂] per cent of about £[✂] million of transactions were sold at prices different from 'the standard price on the Booker System'. Of these, [✂] per cent of transactions (about £[✂] sales value) were attributable to products sold on the price tiers discussed above, with the remaining transactions coming from overstocks, products being reduced to clear, or prices being changed at the till for individual products or customers. A breakdown of the top stores that exhibited local pricing based on Booker's data is presented in Table 2.

TABLE 2 **Local transactions across Booker stores**

Store	*Transactions priced locally %*	*Store*	*Transactions priced locally %*
Clydebank	[✂]	Cheltenham	[✂]
Beckton	[✂]	Peterborough	[✂]
Brighton	[✂]	Avonmouth	[✂]
Tottenham	[✂]	Gorton	[✂]
Blackpool	[✂]	Sheffield	[✂]
Stockport	[✂]	Leigh	[✂]
Shawfield	[✂]	Macclesfield	[✂]
Inverness	[✂]	Huddersfield	[✂]
Nine Elms	[✂]	Wolverhampton	[✂]
Bristol	[✂]	22 Stores[3]	[✂]

Source: CC analysis of Booker data.

27. At [✂] of the 171 stores considered, [✂] per cent of transactions or fewer went through at local prices.

28. Booker runs national, store-based promotions every four weeks. Booker told us that it also ran regional promotions to reflect ranging (ie the choice of the range of products

[3] Holt, Wolverhampton ER, Byfleet, Nottingham, Stoke, Stirchley, Farnworth, Bedford, North Weald, Merthyr, Lincoln, Gloucester, Scunthorpe, Blackburn, Nuneaton, Cardiff, Kettering, Dagenham, Rugby, Clacton, Wrexham and Coventry.

to stock in a particular branch). Furthermore, Booker told us that there were weekly 'manager's specials' promotions run across [✂] out of the 172 stores on the Booker estate. The promotions were not present in some stores because those were too small to carry additional stock or because the increased demand as a result of the promotion was not deemed to be large enough to justify the promotion. We were also told by Booker that [✂] of the 172 stores ran 'trade weeks' a few times each year. These events allowed customers to sample products and speak to sales teams. A further [✂] stores were given access to trade week promotional prices. Finally, it told us that there were some promotions that were only offered in Scotland or London, which we were told reflected 'product preference in those regions'.

29. We compared the average store that did not run any of the promotions to the overall Booker estate. The results are shown in Table 3.

TABLE 3 **Revenues when considering promotions**

Store type	*Retail revenue* £	*Catering revenue* £
Average store (no promotions)	[✂]	[✂]
Average store	[✂]	[✂]
Total revenue (no promotions)	[✂]	[✂]
Total revenue	[✂]	[✂]

Source: CC analysis of Booker data.

---

30. Table 3 shows that, in the main, it is the smaller stores that do not run promotions. Although [✂] per cent of Booker's stores do not run any local promotions, these stores account for only [✂] per cent of its total revenue. The split in revenue from catering and retailing customers tends to be more equal at stores that do not have local promotions. We considered this to be an indication of promotions being targeted towards retail customers.

31. Booker also told us that ranging was considered a key variable. It told us that it determined this centrally—albeit with some local variation to accommodate regional preferences. Booker provided a breakdown of the number of SKUs held at 75 of its stores. This showed stores stocking between [✂] and [✂] SKUs from Booker's total SKU count of approximately [✂]. The average SKU count was about [✂].

32. Booker told us that it defined its ranging requirements in four ways:

(a) Green Tickets—these were key SKUs which were compulsory for branches to stock.

(b) Compulsory Ranges—key categories that were centrally ranged.

(c) Recommended Range—based on ranging guides issues to all branches. This range could be adjusted locally by the branch manager.

(d) Local Ranging—ranges within the Booker portfolio brought in by branch managers to meet specific customer requirements.

33. Booker told us that other factors, notably advertising and marketing, were determined centrally with little to no local variation.

Makro

34. Makro told us that price was set nationally. Until November 2012 Makro’s local management could provide feedback on local price differences to the central buyer team through an in-house tool—Makro ‘Professional Essentials’, which we discuss in paragraph 39 below. Stores may also discount locally when goods are reduced to clear, ex-display or damaged.

35. Makro told us that promotions were set centrally, predominantly through ‘Makro Mail’, a fortnightly campaign outlining centrally-configured promotions which accounted for [✂] per cent of the Makro advertising budget.

36. Makro told us that nearly all aspects of PQRS are set on a national basis, that there was no local variation and local managers had no discretion to influence their local offer. The exceptions were store opening hours, which were set based on local demographics and demand, and some regional product ranges (such as Tennent’s beer in Scotland).

Internal document review

37. We were told by Booker that it did not hold documents relating to ‘pricing or other key variables delegated to regional or local level’. However, we found that there were regional weekly reports produced for the retail and catering groups (separately) which track competitors across PQRS, and what is working or is not working within specific stores and regions. The examples of price-monitoring documents provided by Booker show that prices are monitored for national competitors, using a handful of local stores to compare prices—although this is used as a proxy to inform Booker of competitors’ national prices. The documents also monitored the prices of the larger regional competitors, in particular [✂]. However, there was no discussion of the monitoring of these competitors triggering a competitive response on price in these localities or regions. Booker also provided us with separate price monitoring documents that show that it regularly monitors the prices of [✂] and [✂], across mixed, catering-specific and retailing-specific baskets. The pricing documents do not include any delivered operators, although Booker told us that operators including [✂] were monitored.

38. We saw in Makro’s internal documents that although elements of PQRS are discussed at the national level, stores regularly monitor competition at the local level, and this leads to a variation in their local prices. This is discussed further in the following paragraph. Furthermore, our review of these documents showed that Makro had previously taken time to conduct local customer targeting, carry out in-store events and location-specific marketing. We were told that these local activities accounted for less than [✂] per cent of Makro’s overall promotional activity.

39. Until November 2012, Makro provided its stores with the ‘Professional Essentials’ tool which benchmarked prices across [✂] core lines and a selection of locally-selected lines in each store against its biggest competitor. [✂] The tool allowed stores to provide pricing data on local competitors to Makro’s central buying team. Where necessary, stores were authorized to lower price at the local level.

40. We asked Makro to provide an account of the historical use of the professional essentials tool. We were provided with data from between March 2012 and October 2012 that illustrated the requested and accepted changes for each Makro store on a weekly basis. Data on requested changes that were not accepted by the buying team was not provided. Summary statistics are presented in Table 4.

TABLE 4 **Usage of Makro's Professional Essentials tool**

Store name	*Number of requested changes*
Aberdeen	[✂]
Birmingham	[✂]
Bristol	[✂]
Cardiff	[✂]
Charlton	[✂]
Edinburgh	[✂]
Hull	[✂]
Ipswich	[✂]
Leeds	[✂]
Leicester	[✂]
Liverpool	[✂]
Manchester	[✂]
Preston	[✂]
Queensferry	[✂]
Rayleigh	[✂]
Sheffield	[✂]
Southampton	[✂]
Washington	[✂]
Total	[✂]

Source: CC analysis of Makro data.

41. Table 4 shows that [✂] Makro stores used the tool in total, with [✂] changes being made across the eight-month period. If we omit March and April, which capture the two months after the tool was recast to include stores other than Booker, this reduces to [✂] stores requesting [✂] changes.[4]

42. The parties' internal documents and our hearings with third parties indicated that price is not the sole driver of demand in the wholesaling market. Other factors, including product range, product quality and service, are also important.

43. For Booker, this was evident throughout its turnaround strategy. Its initial focus was on the customer, including stock availability and promotions, followed by a movement towards 'choice up, prices down and better service', which remained its long-term plan. Speed of service and expanding delivery were also mentioned. This was a national initiative.

44. Makro had shifted towards an increased focus on HoReCa (catering) customers, including developments of product ranges to cater for their needs. The AlixPartners strategy was underpinned by a 'range and space' regime, seeking to optimize the range offered at Makro stores. Customer evidence from Makro also pointed towards a variety of factors driving demand. Although price was frequently mentioned, staff quality, product range and requests for delivery were also significant factors for customers.

Submissions from and hearings with third parties

45. As part of our investigation we requested information from and held hearings with third parties. We also received submissions from interested parties.

46. The third parties we spoke to broadly held the view that competition occurred at the local level. However, they said that there was a national element in so far as many competitors have national networks of premises and/or delivery hubs. Bestway told us that 'wholesalers [compete] on both levels, national as well as local. Local being,

[4] The seven remaining stores were [✂].

perhaps, more significant than national’. Costco told us competition was primarily at the regional and local level. However, at the national level there was also competition for supply contracts and negotiation of buying terms. We were told by some of the local wholesalers that competition at the local level was strong, and that they reacted to competitive activity, including when national competitors launched national promotions.

47. The tendency to set prices and promotions nationally, locally or somewhere in between varied across competitors. Both of the parties’ main cash-and-carry competitors—[✂] and [✂]—[✂]. However, if a price changed at a local competitor (we were given the example of United in Scotland), then they may alter the price in the local store to reflect this. Costco told us that the majority of the time it already had a cheaper price on an item even when that same item was on promotion at a competitor’s store. Third parties varied in the discretion they gave to local managers to vary prices. In some cases local store managers had full discretion to make local price changes and in other cases these had to be cleared through head office. We were also provided with specific examples from Bestway, which submitted documents showing its quick reaction to competitors’ promotions at the local level by offering its own promotions on the same or substitute products. Bestway’s ‘manager specials’ varied between two days and a week in length, and it told us that in markets where there were fewer competitors there were typically fewer manager specials and promotions.

48. Bestway also provided information on the degree of local variation of other factors. It stated that at the local level some elements of service might vary. [✂] It also told us that rebates could be offered at the local level.

49. We also spoke to delivered operators. There were clear differences between these operators in their approach to pricing, with some pricing nationally and others regionally. Some operators had national customers that received uniform prices across all regions. They told us that London and the South-East tended to have higher prices and margins than the North. JJ said that this was not because of a shortage of competition in the South-East, but because of the different cost of living. Booker told us that it did not believe that margins were higher in this region. One delivered operator, Palmer and Harvey, said that it was aware of Booker and Makro operating promotions at the local level. However, it followed a national pricing strategy. [✂] [Wholesaler A] told us that it tended to lose more business to local delivered operators than those operating nationally. It followed a mixture of a regional and national pricing strategy, with national accounts having the same prices in all areas.

50. The FWD also informed us that some of the buying groups provided local promotions to local members.

51. Overall, it was clear from the majority of the third parties that there was price variation in at least any given region, if not locality, and that they altered their prices or promotions accordingly. This was specifically the case for the parties’ two main competitors in the cash-and-carry channel.

52. We noted that at times there was some confusion over what was meant by prices being set nationally versus being set centrally. Setting prices from a central office, but having different prices by region or locality, is not national price setting in the sense relevant to this investigation. National pricing requires a uniform price across all regions and localities.

Analysis of the parties' pricing data

53. In this section of the appendix, we examine the store-level weekly prices of the top 20 SKUs by product group from caterers and, separately, for retailers, for both Booker and Makro.

Booker

The data

54. The primary objective of our quantitative analysis was to identify the degree of price variation at the local level for the top SKUs sold by Booker across retailers and caterers. As noted above, Booker had told us that its prices were set centrally.

55. We requested weekly, store-level sales data from Booker for the period 5 October 2009 to 30 September 2012. This was for the collect-only channel; we excluded delivered sales. We requested this data for the top 20 SKUs by product group purchased by retailers, and the top 20 SKUs by product group purchased by caterers, based on 2011 revenue. After the necessary data cleaning, set out in paragraphs 58 to 64 below, the Booker data set contained 4,161 unique SKUs across 171 stores and 92 product categories. The data set consisted of four parts:

(a) collect customers, top retail products (retail);

(b) collect customers, top caterer products (catering);

(c) national account collect customers, top retail products (national retail); and

(d) national account collect customers, top caterer products (national catering).

56. Booker provided data for its general collect customers and national account collect customers separately. We found that in these data sets there were instances of national account customers paying different prices to customers from the regular data set for the same good, collected from the same store in the same week. When creating an average national selling price we considered that the existence of national customers facing different prices could create misleading results in stores which have differing levels of national account custom. As a result, we did not include the national account data sets in the analysis.

57. The SKU level variables requested from Booker included the SKU code and description, the centrally-set selling price, the final selling price at the store and weekly revenue for the SKU by customer type.

Data cleaning and specifications

58. Booker's financial year does not correlate with the actual calendar year. However, we were provided with a table matching the two which we used to match Booker's weeks to the calendar year.

59. The Booker product list had three tiers. The first was the product group (for example, 'disposables'); the second was the product itself (for example, 200ml paper cups); and the third was the specific product (for example, pack of 100 or pack of 1,000). The third group was called the 'saleable unit code'. We based our analysis on the prices for these saleable unit codes.

60. For the collect retail and catering data sets, a problem with the importation of the data resulted in errors in some observations that required line-specific cleaning.[5] These errors, which affected less than 1 per cent of the data set, were removed from the data set where applicable.

61. A further problem for the four data sets was the presence of negative or zero prices, quantities and revenues. The parties told us that this was often due to returns. We decided to omit these observations from our analysis to avoid misleading results from returns.

62. In some instances, multiple observations were recorded for the same Booker saleable unit code, in the same store, in the same week. This was primarily due to separate observations where there were different sale types on the same product. The tables in Annex 1 show the number of duplicate observations when only considering the branch name, the week and the saleable unit code, contrasted with a table that counts sales with promotions as separate observations.

63. As a result of these issues, and to control for any local promotions, we decided to conduct the analysis of Booker's prices across two data-set specifications:

(a) The first considers observations which are sold at a 'regular' price, using the list type '0' provided by Booker. We denoted this specification as 'regular sales'.

(b) The second considers all observations in the data, allowing saleable units to have multiple observations in weeks where different line types are present in the data. Given that we required weekly observations by store, we collapsed this data, summing the revenues and weighting the selling price by the quantity sold to retailers/caterers, depending on the data set. We denoted this specification as 'all sales'.

64. Based on the evidence provided by the parties, we expected to see a greater number of deviations at the local level under a specification including promotional and other prices.

Variable creation

65. We received clarification from Booker that, although prices were determined centrally, it did not hold a national price list as such. As a result, we expected that there could be variation in the sales price for the 'regular' line type 0. In order to examine any variation in local prices from that of the overall national level, we therefore needed to create a variable which represented the 'national' list price for Booker. To do this, we took the mode (the most common observation) of the standard selling price variable ('sellpricestd') to represent the standard or 'national' price. This is the price provided to a store by head office. We constructed this variable each week for an SKU for which there were more than five observations in the sample. Weeks in which there were five or fewer observations were omitted from the analysis to reduce the risk of misleading results. In a very small number of instances, multiple modes were available. These were omitted to maintain a consistent approach.

[5] By way of example, the problems with the data for collect retail stemmed from nine specific saleable unit codes. Five of these saleable unit codes accounted for 23 observations with substantial variation in list prices. As a result, they were dropped from the analysis. For the remaining four saleable unit codes, we found that 291 of the observations had incorrect products mixed into the saleable unit codes. For example, from the read-in of saleable unit code '526095 - CL S/S 7 Cake Tongs', we found observations from '525501 – CL S/S Ice Cream Portioner'. We then corrected the saleable unit codes accordingly. This was replicated across all relevant entries for both catering and retail data sets.

66. Our analysis considered, for each product category and year, the total number of observations and the number of movements away from the 'national' price. We then calculated the mode, weighted mean (weighted by revenue for the customer type of the data set in question[6]) and standard deviations for these movements.

67. We were aware of the risks of placing too much weight on small variations in variables constructed from aggregate data. We therefore added a sensitivity filter into our analysis and conducted the analysis with and without the filter. The filter removed any deviations in price which were between plus or minus 1 per cent of the constructed national price, in effect considering deviations of less than 1 per cent to be prices that are equal to the national price level.

68. We also omitted deviations above 120 per cent or below –60 per cent of the national selling price to reduce the impact of outliers that were likely to be the result of data problems. A manual inspection of this data led us to consider that these deviations were most likely to be due to errors in data recording such as short-dated stock being recorded under normal sales, rather than a reaction to local competition.

69. Booker provided a second price variable, 'sellpricelocal', which is the final selling price for the local store. This reflected any further adjustments made at the local level. Booker told us that typically these adjustments were attributable to short-dated stock, product de-lists, free samples or incorrect ticketing. Given that this price was due to the factors above, and given the results presented below, we did not undertake any further analysis of this variable.

Results

70. Our results are based on data for the year 2011. This is the most recent year with complete information available. Annex 2 contains tables with the reported values across all product groups; the analysis below only considers cumulative totals and averages.

Retail products data set

71. The cumulative results for Booker's retail data set, based on regular sales and all sales, are set out in Table 5.

[6] For example, for the top retail products data, we weight by revenue from retail customers.

TABLE 5 **Booker's local price variations, retail data set**

	Regular sales (sales made at non-promotional or non-discounted prices such as 'reduced to clear')	*All sales (all sales in the data set, including promotions)*
Observations *Total number of observations—one for each of the top 20 SKUs in each product code, per branch, per week (where available)*	[✂]	[✂]
Number of deviations *Total number of deviations observed where the good is not sold at the constructed national selling price*	[✂]	[✂]
Filtered number of deviations *Total number of deviations observed that are sold at a price outside of plus or minus 1 per cent of the constructed national selling price*	[✂]	[✂]
Filtered mean (%) *The average of the filtered number of deviations*	[✂]	[✂]
Filtered mode (%) *The most common value for the filtered number of deviations*	[✂]	[✂]

Source: CC analysis.

(a) For regular sales to retailers, we found that [✂] per cent of products vary locally. This was prior to applying a filter omitting variation between [✂] (the 'filter'). After applying the filter, this was reduced to [✂] per cent of observations. We also observed that both the mean and mode of deviations were positive, implying the existence of higher prices for some local stores.

(b) Across all sales we saw an increase in the number of observations deviating from the average national selling price. Prior to filtering, [✂] per cent of observations were different from the national average. This fell to [✂] per cent after the filter was applied. Again, we saw positive values for both the mean and mode of deviations.

72. The distribution of deviations observed from the constructed national selling price paid by retailers is displayed in Figures 1 and 2 across the two specifications.

FIGURES 1 and 2

Distribution of deviations from Booker national selling price: retailers

[✂]

Specification 1: Regular sales | Specification 2: All sales

Source: CC analysis.

73. The distribution of deviations was wider for all sales than for regular sales. This is because all sales include sales of short-dated stock that are likely to deviate significantly from the national average price. Furthermore, we considered that there may be some products on promotion at the majority but not at all stores. We also observed some slight weighting towards higher prices at the local level.

Catering—collect data set

74. The cumulative results for Booker's catering data set, for both regular sales and all sales, are presented in Table 6.

TABLE 6 **Booker's local price variations, catering data set**

	Regular sales	*All sales*
Observations	[✂]	[✂]
Number ofdeviations	[✂]	[✂]
Filtered number of deviations	[✂]	[✂]
Filtered mean (%)	[✂]	[✂]
Filtered mode (%)	[✂]	[✂]

Source: CC analysis.

(a) For regular sales, we observed nearly twice as many deviations from the data set for retailers, with [✂] per cent of sales being different from the constructed national price. This dropped to [✂] per cent once the filter is applied. We also observed the trend of positive means and modes continuing for Booker.

(b) For all sales, we observed [✂] per cent of observations deviating from the average national price. This dropped to [✂] per cent following application of the filter. The mean of deviations rose to [✂] per cent.

75. The distribution of deviations observed from the average national selling price paid by caterers is displayed in Figures 3 and 4 across the two specifications.

FIGURES 3 and 4

Distribution of deviations from Booker national selling price: caterers

[✂]

Specification 1: Regular sales | Specification 2: All sales

Source: CC analysis.

76. As with Booker's retail data, the dispersion of deviations away from the average national selling price was higher when all goods were considered. We also observed a slight weight towards more positive deviations, corroborating the descriptive statistics.

77. Overall our findings were consistent across both specifications and both catering and retail data sets. The data for regular sales alone showed that a small number of key products were sold at local prices. These prices were, in the main, higher than the national average. A higher percentage of products deviated from the average when all sales were considered. This is consistent with the information provided by Booker.

Makro

Data

78. Like Booker, Makro told us that prices were set nationally. We requested the same data described in paragraph 55 from Makro as we did from Booker, with any data relating to delivered sales to be excluded. Makro's data set contained 1,470 SKUs across 29 stores and 79 product categories.

79. Makro's data was split into two parts:

(a) retail—data for the top 20 SKUs by product group purchased by retailers; and

(b) catering—data for the top 20 SKUs by product group purchased by caterers.

Cleaning and variable generation

80. Each Makro data set was provided at store level.[7]

81. As with Booker, there were instances where the prices had negative values due to errors or returns and these observations were omitted. For both the retail and catering data set we kept all observations with positive retail selling prices.

82. We were unable to obtain a standard selling price from Makro. Makro told us that it did have a national daily selling price for single SKUs, but that it would be difficult to convert this into a weekly selling price. Furthermore, its daily selling price did not take into account promotions, or the impact of a promotional period. As a result of this, Makro provided an indicative list price, which was an average of the selling price charged across retail, catering and other customers over the course of a week. It also provided the total revenue by customer group and total quantity by customer group. The latter allowed us to revise the indicative list price by customer group. We undertook this approach in our analysis for the retail and catering customer groups, creating a list price for the retail customers based on the retail revenues and quantities sold by SKU, and followed the same approach for catering, rounding to the nearest penny.

83. As noted in paragraph 67, the creation of a national selling price variable can result in local prices appearing to deviate from the national price as a result of rounding errors stemming from the need to create a benchmark price variable. Given the problems with creating a list price for Makro's data noted above, we expected the severity of this effect to be greater for Makro. However, we have conducted the analysis with and without a filter, as for Booker, with the filter omitting any local prices that are 1 per cent either side of the generated national price. We expected that there is greater insight to be gained from the analysis when we have the filter in place that excludes non-promotional sales.

---

[7] We omitted Belfast from the analysis. We also omitted a Reading outlet because there were too few observations for meaningful analysis.

84. We followed the same approach with Makro's data as with Booker's. This is described in paragraph 68.

85. Unlike the Booker data, Makro's descriptions always matched the SKU code. Furthermore, we had no instances of multiple observations per SKU in any given store and week.

Results—retail

86. The cumulative results for Makro's retail data set, for regular sales and all sales, are presented in Table 7.

TABLE 7 **Makro's local price variations, retail data set**

	Regular sales	*All sales*
Observations	[✂]	[✂]
Number of deviations	[✂]	[✂]
Filtered number of deviations	[✂]	[✂]
Filtered mean (%)	[✂]	[✂]
Filtered mode	[✂]	[✂]

Source: CC analysis.

(a) For the first specification, regular sales, we saw considerable variation in the price paid by Makro's retail customers across its estate. Around [✂] per cent of Makro's sales were priced differently at the local level, dropping to [✂] per cent once the filter was applied. We also noted that both the mean and the mode deviations are negative, implying discounting at the local level.

(b) Under the second specification, 'all sales', we observed a greater number of retail sales deviating locally. This affected approximately [✂] per cent of observations on average: this dropped to [✂] per cent once the filter was applied. Unlike the first specification, we observed a positive mode. It seems likely that this was due to promotions running across the majority of, but not all, stores for certain retail products in the sample.

87. The distribution of deviations observed from the average national selling price paid by retailers across the two specifications is shown in Figures 5 and 6.

FIGURES 5 and 6

Distribution of deviations from Makro national selling price: retailers

[✂]

Specification 1: Regular sales Specification 2: All sales

Source: CC analysis.

88. The majority of observations for Makro's retail data for regular sales showed deviations below national list prices at the local level. [✂]

Results—catering

89. The cumulative results for Makro's catering data set, based on regular sales and all sales, are presented in Table 8.

TABLE 8 **Makro's local price variations, catering data set**

	Regular sales	*All sales*
Observations	[✂]	[✂]
Number of deviations	[✂]	[✂]
Filtered number of deviations	[✂]	[✂]
Filtered mean (%)	[✂]	[✂]
Filtered mode (%)	[✂]	[✂]

Source: CC analysis.

(a) We observed around [✂] per cent of sales to caterers being made under local variation of prices, dropping to [✂] per cent after applying the filter. As with the retail data set, both the mean and the mode were negative, from which we infer the presence of local discounting.

(b) When we considered all sales, we found that approximately [✂] per cent were made under local pricing. This dropped to [✂] per cent when we applied the filter. Interestingly, the mean and the mode are somewhat similar under this specification, and considerably smaller than those seen in the regular sales data.

90. Figures 7 and 8 show the distribution of the percentage difference compared with the national price for Makro's catering data set.

FIGURES 7 and 8

Distribution of deviations from Makro national selling price: Caterers

[✂]

Specification 1: Regular sales Specification 2: All sales

Source: CC analysis.

91. Makro's catering data showed that the majority of deviations from the national price are negative, implying discounting at the local level. We saw a similar peak at the [✂] per cent level as observed in the retail data set.

92. Makro's local pricing tended to be below that of the constructed national price.

Duplicate observations in the Booker data set

[✂]

Pricing results by product group

Booker—retail, regular sales:

[✄]

Booker—retail, all sales:

[✄]

Booker—catering, regular sales:

[✄]

Booker—catering, all sales:

[✄]

Makro—retail, regular sales:

[✄]

Makro—retail, all sales:

[✄]

Makro—catering, regular sales:

[✄]

Makro—catering, all sales:

[✄]

Competitors

Introduction

1. This appendix offers an analysis of suppliers operating within the UK grocery wholesaling market that primarily supply the following customer groups:

   - Retailers—independent convenience stores such as newsagents.

   - Caterers—including hotels, restaurants, public houses and takeaways.

2. We have split competitors into a number of groups as a part of our analysis. The first—cash-and-carry wholesale—is where a customer visits premises to select and collect goods. There are national operators, such as Booker and Makro, and regional and local operators. Many local and regional operators are members of buying groups which harness the collective buying power of their members to receive improved terms, such as volume-related discounts, from suppliers. The second group—delivered wholesalers—deliver goods direct to customers' premises. We also look at specialist wholesalers, which tend to be local or regional, and have a particular speciality, eg fish or cheese. The parties' customers also purchase some goods from supermarket multiples and discounters.

3. We began by considering the parties' views on competitors and customers; we then reviewed evidence from third parties on the market. In our analysis, we considered the similarities and differences in the baskets of goods purchased by Booker's collect and delivered customers. We then considered survey data, exploring customers' buying habits and views on the wholesale market as a whole.

Parties' views

4. Booker told us that it did not believe that the market could be segmented by distribution channel. It believed that its customers purchased the goods required to operate their businesses from a range of sources, and that there was a considerable amount of evidence to support this. The evidence it gave included a low share of overall customer spend for the parties, surveys of customers stating that they multi-sourced, and analysis showing that customers using cash-and-carry operators were not distinct from those using delivered operators. We were told by Booker that its customers sourced supplies from local, regional and national cash-and-carry operators, specialists and delivered wholesalers. It told us that its customers could also source from suppliers directly.

5. Makro told us that it faced a much wider set of competitors for its non-food offering.

Delivered

6. Booker told us that it considered delivered operators as competitors and that they provided an effective competitive constraint. Booker provided evidence that Palmer and Harvey monitored its price against cash-and-carry wholesalers, both nationally and regionally across 600 'best selling' lines.[1] The delivered operators primarily

[1] See www.palmerharvey.co.uk/press-room/counting-the-cost-of-cash-and-carry/.

discussed in Booker's submissions are Brakes and 3663, which are both delivered foodservice businesses serving the catering industry. We were told by Booker that it monitored the prices of all the delivered operators: however, whilst its submission mentioned delivered foodservice operators, the examples that it provided included only retail-focused delivered operators.[2]

7. Booker told us that cash-and-carry operators were increasingly offering delivered services. This was notably true of Booker, which had seen delivered revenue from pre-existing collect customers increase by [✂] per cent since 2005. The delivered service accounted for 28 per cent of total sales for the Booker business to the year ended 31 March 2012. In addition, Bestway, a national cash-and-carry operator, has also started to offer delivery. We were also told about JJ, which, conversely, had moved from delivery-only to offering customers a 'click-and-collect' service, whereby customers picked up their pre-ordered goods from JJ premises.

8. Booker pointed to research undertaken by Palmer and Harvey, which considered the opportunity cost of using cash-and-carry against delivered. The research suggested that the annual cost to a retailer of using a cash-and-carry wholesaler was around £2,500, with an additional opportunity cost of £2,346. The research also showed that Palmer and Harvey price-matched 600 products (representing 55 to 57 per cent of non-tobacco convenience sales) against cash-and-carry operators.[3]

9. Booker also told us that there was a high degree of overlap in the top products purchased in its collect and delivered channels. It said that the top 1,000 SKUs sold on a collect basis represented [✂] per cent of collect sales and that the same SKUs accounted for [✂] per cent of delivered sales. Booker told us that it believed that this indicated an overlap in the SKUs. We have conducted an analysis of the overlap between collect and delivered baskets for retail and catering customers. This analysis begins at paragraph 61.

Buying groups

10. Booker told us that local and regional cash-and-carry operators also provided a competitive constraint. Many of the local and regional cash-and-carry operators were members of 'buying groups'—such as Today's and Landmark—which harness the collective buying power of their members to obtain preferable buying terms with suppliers. In turn, they pass these savings on to their members, putting them in an enhanced position to compete against the national cash-and-carry operators. Booker told us that this allowed the buying group members to obtain a 'similar (or greater) degree of purchasing power to Booker'. [✂]

11. Makro told us that where it faced local or regional cash-and-carry operators, these were often part of national buying groups.

Specialist wholesalers

12. Booker told us that specialist wholesalers, which tended to focus on specific products or customer groups, were able to succeed through close working relationships with customers. We were told that examples of specialist wholesalers included those

---

[2] The delivered operators/symbols tracked are [✂].

[3] 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/.

specializing in products such as meat or BWS. It said that specialist wholesalers may be ‘refugees’—businesses which had moved from solely serving the high street to also supplying local pubs and restaurants, giving the example of a local butcher.

Supermarket multiples

13. Booker told us that the supermarket multiple retailers (the ‘multiples’) provided two different competitive constraints on its business. The first was a direct constraint where the customer switched to purchasing its supply from a supermarket. This was most significant for catering customers. The second was the indirect constraint that resulted from the competitive pressure that the multiples placed on Booker’s retail customers. The presence of the multiples, and their increasing presence in the convenience space, constrained the final selling price that independent retailers could charge the end-consumer and hence the price that Booker could charge its customers. This effect was most significant in retail, although Booker also told us that independent caterers faced pressure from multiple caterers such as McDonalds.

14. Booker told us that it benchmarked approximately 200 lines against multiples, including [✂]. It also benchmarked its ‘own brand’ retail products against some of the multiples. For example, the prices of Euroshopper products were set between those of [✂], and Happy Shopper goods were set within [✂] per cent of [✂]. Retail prices on these products guaranteed at least a [✂] per cent profit on return for retailers.[4]

Customers

15. In this section of the appendix we consider the behaviours and preferences of customers in order to understand better the potential competitors in the market.

16. Booker produced a report in the course of the inquiry that considered the behaviour of customers within the grocery wholesaling market. This included an internal survey of its catering customers, commissioned for the OFT stage of this merger inquiry. We consider this report in Appendix D and have considered Booker’s interpretation of the survey results.

17. Booker told us that its customers multi-sourced from wholesalers. Booker pointed to evidence from surveys, including those conducted by IMAS, Harris International Marketing and the internal survey conducted by GfK during the OFT stage of this inquiry. We discuss these sources of evidence in our survey section starting at paragraph 71.

18. Booker did not believe that there was loyalty to operators in the wholesale market. It provided us with the level of customer churn it saw in its business each year. This showed that for 2012, Booker gained about [✂] retail customers and lost about [✂]. It also gained about [✂] catering customers and lost about [✂]. An internal survey conducted by Booker in 2009 showed that of the lapsed customers that had not exited the market altogether, around [✂] per cent[5] switched to another cash-and-carry wholesaler, [✂] per cent to delivered wholesale and [✂] per cent to a supermarket.

19. Booker also told us that it placed no restrictions on switching suppliers for the majority of its customers. The exceptions were national account customers and Premier

---

[4] The difference between the cost price and the selling price expressed as a percentage of the selling price.
[5] By revenue.

customers—which must spend about £[✂] per month with Booker.[6] Makro told us that its customers did not enter into supply contracts with Makro, and that no customers faced any obligation to purchase from Makro. Makro did not operate a symbol group.

20. The parties believed that their customers used a wide range of suppliers. Delivered operators were considered as a significant competitive constraint, with strong competitors in both retail and catering. Buying groups allowed regional and local cash-and-carry operators to offer competitive prices and promotions at the local level. Finally, the multiples exerted two constraints—both direct, in terms of competing *for* their customers, and indirect, through competing *with* their customers.

Internal document review

21. We first discuss Booker's documents, then Makro's.

Booker

22. Over the course of the inquiry, we were provided with a large number of internal documents for consideration. We have also received those provided by the parties to the OFT. Booker's documents include strategy reviews, board minutes, weekly regional reports and price monitoring.

23. Booker pointed to its rolling three-year plans as evidence of its strategy both historically and going forward. We reviewed these and found that although delivered operators are distinguished from collect, they were broadly seen as competitors. For caterers, the main listed competitors were [✂]. For retailers, they were [✂].

24. The reports also set out 'risks' to the Booker business. Of the five highest risks listed in the reports, three were relevant to this analysis: [✂].[7]

25. There was a clear emphasis on developing its delivery service in Booker's internal documents. This was reflected in its financial data. [✂] are consistently mentioned as competitors in the catering segment. The documents also mentioned price wars with other wholesalers, including a challenge to 'win the price war' between [✂].

26. Booker also gave us weekly monitoring reports across competitors and customers in the retail and catering segments. These are explored below.

    (a) We found that the main delivered operators that are tracked in relation to the retail sector are [✂], with others including [✂]. It was clear from these reports that there was significant effort made by Booker to track these competitors, notably in relation to Booker's Premier stores. Furthermore, there is substantial discussion of multiples.

    (b) The majority of weekly reports for catering considered the main foodservice operators—[✂]. Often they included a 'biggest win of the week' section, which monitors large customer wins from [✂].

27. Booker also gave us pricing reports which consider the multiples only. These considered a basket of goods across different product categories for all customers, and further segregations into retail and catering. These are produced on a weekly basis.

[6] The amount is determined by store size.
[7] We have reports for 2009, 2010 and 2011. In 2009 and 2010 there are four 'high' risks. The other risks listed are [✂].

We undertook an analysis of these reports. We aggregated the 36 weeks available for the combined basket. We considered the percentage of weeks that [✂] or [✂] are cheaper for the basket when sorted by product group. We also considered the average basket price which we have indexed against Booker. The analysis is presented below.

TABLE 1 **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 & 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.

28. Table 1 shows that there is considerable variation in the tracked basket prices. For many product groups, there were weeks during which the tracked baskets were cheaper at [✂] or [✂] than at Booker. This is particularly the case for bakery, where the average basket over time is cheaper at both supermarkets. Beer was also on average cheaper at [✂], and on average the same price at [✂].

29. There were also product categories which are consistently far higher than Booker's prices. For both supermarkets these included fruit and vegetables, meat, fish and poultry, non-food, hot beverages, crisps and catering grocery.[8]

30. Finally, we noted that Booker tended to group local operators into an 'independents' category for price benchmarking exercises.

31. Overall, Booker's internal documents supported the views outlined in paragraph 4 that: customers multi-source; delivered operators and regional cash-and-carry operators are seen to be competitors; and the multiples are used by some customers as a source of supply.

[8] This includes products such as vegetable oil, flour and curry paste.

Makro

32. Makro provided a number of internal documents for our consideration. These included strategy documents, annual reports, surveys and customer satisfaction reports.

33. In its strategy documents, Makro frequently mentioned the trend toward delivery and the need to expand into this area. A Makro turnaround plan, developed by AlixPartners, stated that 'food manufacturers and suppliers are increasingly delivering direct to customers (Brakes, 3663)', and that in 2009 Hotel, Restaurant and Catering (HoReCa) customers were '[✂]'. We also noted that Makro's annual reports mention delivered wholesalers as competitors, and state that foodservice delivery has strong growth opportunities.

34. Makro's strategy documents, including the turnaround plan and 'key transformation projects', showed that developing a delivered offering was seen as key to Makro's business growth.

35. We noted that ad-hoc feedback gathered in 2012 includes frequent mentions of requests for a delivered service by Makro customers. We also noted that this was discussed at Booker's board meetings in the context of the transaction.

36. Makro provided examples of key value item (KVI) reports, which monitored promotions and price changes in KVIs across its product range. Notably, it tracked its prices and promotions for these products against [✂].[9] The product groups tracked include BWS, grocery, confectionery, frozen fruit and vegetables and meat.

37. Overall, Makro's internal documents showed similar themes to those of Booker: notably that there was a clear move by Makro towards developing a delivered offering. In addition, the majority of Makro's strategy revolved around targeting Booker. This included monitoring Booker's prices and surveying customers for comparisons of the two parties.

Third parties' views

38. Over the course of the inquiry, we spoke to a number of third parties. These included national cash-and-carry wholesalers, delivered foodservice wholesalers, delivered retail wholesalers, supermarkets and large regional members of buying groups. We asked these parties who they considered to be their main competitors in the market, if this included delivered operators, local competitors and the multiples, and what they knew of customer preferences. We set out our findings below.

Delivered operators

39. In this section of the appendix, we consider how delivered operators are seen by cash-and-carry operators, and how the delivered operators see themselves in the wholesale market.

How cash-and-carry view delivered operators

40. Cash-and-carry operators told us that there was a part of their customer base for which delivered operators provided an alternative source of supply. However we

[9] [✂]

were told by Bestway that cash-and-carry operators remained the cheapest route to market, and that customers would pay a lower price through this channel than through a delivered wholesaler. [✄] Costco told us that it responded to any price which was lower than Costco's own price. Costco was not able to obtain symbol group membership and did not receive delivered wholesale price lists. Costco therefore had no direct access to this information. Despite not having direct access to pricing information in this way, Costco told us that some members would inform it when its prices were not competitive, and once this information was verified, Costco would respond accordingly.

41. Parfetts, a regional cash-and-carry operator, told us that cash-and-carry customers were not distinct from those using delivered services. It also stated that most customers used both services, and that, in its opinion, over the next five years delivered wholesale would increase overall market share at the expense of cash-and-carry wholesale. It told us that it was seriously considering development of a delivered service.

How the delivered operators view cash-and-carry operators

42. We also spoke to five delivered operators which served both catering and retailing customers. Brakes and 3663 supplied delivered foodservice, with nearly all customers being in the catering industry. JJ supplied some retailers but predominantly caterers. We also spoke to Musgrave, a delivered operator that owned the Londis and Budgens symbol groups, and Palmer and Harvey, which supplied a wide range of stores including the multiples.

43. There were some differences in the responses from delivered operators. We were told by [Wholesaler A] that there was no choice for smaller customers except cash-and-carry operators, and overall its submission considered cash-and-carry wholesaling to be a distinct market from delivered. It saw Brakes and Booker as main competitors, not Makro, and it saw Booker as a competitor in terms of its recently developed delivered service. At the local level, [Wholesaler A] considered local delivered operators to be competitors but not local cash-and-carry operators. Finally, it told us that if its customers did use cash-and-carry wholesalers, this would tend to be for top-up shopping.

44. Brakes considered that Booker was a large competitor, [✄]. It believed that it was in direct competition with cash-and-carry operators. It told us that Makro was ‘newer’ as a supplier to caterers, but did note it as a competitor. Furthermore, it did not believe that caterers were hindered by any minimum order requirements, stating that most professional caterers could ‘easily exceed’ its minimum order level. Brakes also believed that diversion ratios may be artificially high towards the cash-and-carry operators because BWS and tobacco products were harder to source from some delivered foodservice operators.

45. JJ gave us a different perspective. JJ had recently developed a collect service to sit alongside its delivered service. This had resulted in 40 per cent of customers choosing to collect their goods. It told us that delivery was expensive, and that its delivered prices were higher than collect. Like Brakes, it included Booker as a large competitor to its business, along with Makro and Bestway.

46. We were told by Palmer and Harvey that it did not monitor the prices of Makro but did monitor Booker, Dhamecha and Bestway. Musgrave told us that overall the market was primarily delivered.

47. On balance, we considered that the third parties broadly saw delivered wholesaling as a constraint on cash-and-carry wholesalers.

Specialists

48. We also considered the extent to which third parties viewed specialist wholesalers as placing competitive constraint on cash-and-carry wholesalers.

49. Third parties told us that specialist operators did provide some constraint on general wholesalers; however, the extent to which this impacted on their overall business was limited to the product group supplied by the specialist. Particular product groups that we have seen provided by specialists include tobacco, BWS, confectionery, meat and fish. Some parties made it clear that while they aimed to be a 'one-stop' shop, their customers would source some goods from specialist wholesalers. One notable competitor, Hancocks, was mentioned by Bestway as being a constraint in the supply of confectionery. Musgrave told us that in some categories, due to the existence of specialist suppliers, its wholesale customers were very sensitive to price changes and gave the example of a 2 per cent increase in its alcohol prices having led to a reduction of almost 10 per cent in sales to certain retailers in its Londis symbol group.

Supermarket multiples

50. We were told by Booker that the constraint imposed by the supermarket multiples (the 'multiples') on the wholesaling market was twofold:

   (a) a direct constraint imposed by the multiples through the ability to sell at prices that allowed Booker's customers to purchase from them as opposed to wholesalers (primarily affecting caterers); and

   (b) an indirect constraint downstream through the multiples' direct competition with Booker's customers. It considered that this affected both retailing and catering customers.

51. Booker also told us that supermarket multiples operated 'dark stores'.[10] We noted that these were primarily used as hubs to support the multiples' delivered operation to retail customers.

52. We also considered the views of other wholesalers, and the views of the multiples themselves.

53. We note that overall, Booker's view of the multiples constraining the market in two ways was supported by the other cash-and-carry operators. In terms of the indirect constraint, Bestway, which has considerable sales to retailers, told us that the increasing number of small stores being opened by the multiples had an impact downstream on the independent retailers. Costco told us that because the multiples were in direct competition with its customers, it had to ensure that its customers were able to get either good enough deals or significant differentiation of product (or both) in order effectively to compete. As a result, it was as aware of market activity in the multiple retail market as the wholesale market. Parfetts noted that the multiples were 'increasingly' supplying products in wholesale quantities to customers at prices which it 'could not hope to match'. These views were supported by Bargain Booze, a con-

[10] A store from which Internet orders are fulfilled. It is staffed by pickers and members of the public are not admitted.

venience store franchise group, which saw its main competitors as the convenience offerings of the multiples—such as Sainsbury's Local and Tesco Express.

54. Some delivered operators held a slightly different view. [Wholesaler A] told us that although multiples were used by its customers, this was typically just for top-ups, except for Asda which was now actively targeting caterers with an online offer. JJ told us that it was only seen as a competitor when it had particular products on promotion. On the other hand, Brakes stated that it did compete with the multiples, and that smaller catering establishments may collect from and/or have home deliveries from supermarkets. The views on small customers were confirmed by Costco, which told us that the smaller caterers would often use supermarkets, due to convenience, variety and freshness, and because quantities at cash-and-carry wholesalers may be too large.

55. We spoke to two of 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 used its stores. Asda told us that it did not compete directly with the wholesale market. However, it did have an Asda Business website which targeted businesses such as childcare nurseries and offices, [✂]. However, Asda told us that it did not anticipate that the merger would have significant impact on its own business.

Buying groups

56. National cash-and-carry operators were clear that the buying groups provided a significant competitive constraint on their business, specifically mentioning regional cash-and-carry wholesalers. However, Bestway noted that it believed that the size of buying groups was in decline as smaller wholesalers either exited the market or were acquired.

Symbol groups

57. A number of third parties held the view that symbol groups provided a competitive constraint on cash-and-carry wholesalers for retail customers. Parfetts, a regional cash-and-carry operator that derives 95 per cent of its revenue from retailers, noted in its submission that Nisa was a major competitor. [A UK symbol and buying group] noted that Musgrave, which operated the Londis symbol group, was one of its major competitors. Musgrave told us that Londis customers did use other sources of supply, including the cash-and-carry operators; however, there was an increase in the number of independent retailers joining the Londis symbol group. It told us that this was predominantly because independent retailers were joining a symbol group for the first time, as opposed to existing symbol group members switching from other symbol groups

Customers

58. All the third parties we spoke to held the view that customers multi-sourced, albeit to varying degrees. Metro told us that [✂]. Bestway told us that customers would 'cherry pick' from a number of delivered and cash-and-carry operators in order to get the best prices and take advantage of promotions. However, it also told us that retailers operating in symbol groups were less likely to shop around. Costco told us that customers would multi-source.

59. Brakes told us that it believed caterers would use [✂] and that it estimated its average share of spend to be around [✂] per cent. It believed that if a caterer were forced to move part of its basket, its demand would not shift to just one other

supplier, but a number of suppliers. As a result, [✂]. Palmer and Harvey told us that it believed independent retailers would rarely have only one route of supply, and that independents would shop across cash-and-carry operators and delivered operators. We were told by JJ that price was the main driver of demand, and that customer loyalty was low. It also believed that some customers multi-sourced regardless of other costs, such as fuel. The sole exception to the above was one delivered operator, [Wholesaler A], which told us that other sources of supply were only used for top-ups or specialist products such as meat, and that post-merger the smaller customers which it felt could not use delivery would be limited in their choice.

60. One further aspect of customer behaviour that third parties told us about was the ‘social’ aspect of visiting a cash-and-carry store. Bestway told us that many customers would visit the store to interact within their retail or catering community, swapping ideas and meeting with the store management. Palmer and Harvey also held this view, stating that there was a social aspect to cash-and-carry shopping, which was significant given the ‘lonely’ aspect of running a retail business.

Analysis of SKUs by channel

61. In this section of the appendix, we consider the top SKUs for Booker caterers and retailers. We compared the top 1,000 SKUs for these customer groups based on collect and delivered sales. The primary objective of the analysis was to establish the extent of overlap between collect and delivered channels.

62. Booker provided internal figures on the overlap between delivered and collect sales. The top 1,000 SKUs sold on a collect basis represented [✂] per cent of collect sales. The same SKUs represented [✂] per cent of delivered sales. Booker believed that this illustrated the overlap of customer preference across the two distribution channels.

Data

63. We requested weekly, store-level sales data from Booker for the period 5 October 2009 to 30 September 2012. This was for the top 20 SKUs by product group purchased by retailers, and the top 20 SKUs by product group purchased by caterers, based on 2011 revenue.

64. We aggregated this data by product, year and the revenue attributable to caterers and to retailers. We were left with four sets of data:

(a) the top 1,000 products for collect caterers;

(b) the top 1,000 products for collect retailers;

(c) the top 1,000 products for delivered caterers; and

(d) the top 1,000 products for delivered retailers.

Analysis

Retail data set

65. We took the data listed above and considered the crossover between the top SKUs for delivered and collect customers. This was conducted across two specifications. The first considered whether an item in a basket of top products for one channel was

in the same top product basket for the other channel, ie whether an item in the top 50 products for retail collect customers was also present in the top 50 products for retail delivered customers. The second specification considered whether a product in one channel was present in the top 1,000 products for the other channel. The results are presented below.

TABLE 2 **Retail collect and retail delivered**

	Specification 1: Comparisons of top product baskets		*Specification 2: Collect products present in top 1,000 delivered*		*Specification 2: Delivered products present in top 1,000 collect*	
Top products	*Matched*	*Unmatched*	*Matched*	*Unmatched*	*Matched*	*Unmatched*
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Booker data, CC analysis.

66. We see from Table 2 that there is a high level of crossover. Over [✂] per cent of the top 1,000 products for Booker's retail customers are found in both collect and delivered baskets. When we consider the top 50 and top 100 products, over [✂] per cent are found in both baskets. Looking at the second specification, we note that the top [✂] products for both channels are found in the top 1,000 products for the other; and that this remains the case for nearly all of the top [✂] products.

Catering data set

67. We follow the same approach for caterers as outlined for retailers in paragraph 65. The results are presented in Table 3.

TABLE 3 **Catering collect and catering delivered**

	Specification 1: Comparisons of top product baskets		*Specification 2: Collect products present in top 1,000 delivered*		*Specification 2: Delivered products present in top 1,000 collect*	
Top products	*Matched*	*Unmatched*	*Matched*	*Unmatched*	*Matched*	*Unmatched*
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CC analysis.

68. We see a similar result for catering customers, with nearly [✂] per cent of the delivered and collect baskets overlapping. We note that only a small number of the top 50 products collected by caterers are not present in the top 1,000 delivered products. A manual inspection showed that the five products present in the top 100 products for collect caterers, but not present in the top 1,000 products in the delivered data set, were all [✂].

69. Booker told us that there was no difference between the prices paid by delivered and collect customers for the same goods. We undertook an analysis of SKU-level data, selecting three weeks at random in which to compare prices.[11] We found that for the vast majority of prices, this was indeed the case. For those prices which were differ-

[11] These were the weeks commencing 18 September 2010, 12 November 2011 and 28 July 2012.

ent, we found that there was no pattern in the price differences, and any differences were in all likelihood attributable to transcription errors, ad-hoc discounts or short-dated stock.

70. Overall, the data analysis supports Booker's view that there is significant overlap between the key products purchased by delivered and collect customers, both in retail and catering. Although there are some differences, these are primarily not in the top 500 products purchased by both customer groups.

Survey evidence

71. The CC did not commission its own survey. However, the following sources of survey evidence were available (or provided to us by the parties):

(a) a survey of Booker and Makro customers conducted by GfK in August 2012 at the OFT stage (phase I) of this inquiry (the 'GfK Survey');

(b) annual surveys from 2009 to 2012 conducted by Harris International Marketing, a widely used consultancy within the industry, considering both collect and delivered retail and catering customers; and

(c) surveys commissioned by Makro of its customers and potential customers, conducted by IMAS in 2008.

72. We also consider an internal survey conducted by Booker staff for the purposes of this inquiry with a selection of its catering customers.

GfK survey

73. The GfK survey was a telephone survey of Booker and Makro customers in 22 local areas across 44 stores, based on the OFT's fascia count filter. It targeted 50 retailers and 50 caterers per store, with a total sample of 3,996. We discuss the GfK survey's methodology in Appendix D, paragraphs 2 to 7.

74. There were three questions in particular which help inform us of customers' views on competitors in the wholesale grocery market. These were Questions 4, 5 and 6, for which we have aggregated the answers below.

TABLE 4 **The parties' customers' supplier preferences**

Which of the following types of supplier would you consider buying from?

per cent

	Booker caterer (n=681)	*Booker retailer (n=463)*	*Makro caterer (n=501)*	*Makro retailer (n=752)*
Cash & carry—collect	[✂]	[✂]	[✂]	[✂]
Cash & carry—delivery	[✂]	[✂]	[✂]	[✂]
Delivered wholesaler	[✂]	[✂]	[✂]	[✂]
Symbol group wholesaler	[✂]	[✂]	[✂]	[✂]
Specialist food or drink wholesaler	[✂]	[✂]	[✂]	[✂]
Specialist non-food wholesaler	[✂]	[✂]	[✂]	[✂]
Supermarkets	[✂]	[✂]	[✂]	[✂]
Discount retailers	[✂]	[✂]	[✂]	[✂]
Direct supply from manufacturer	[✂]	[✂]	[✂]	[✂]
Mail order/online	[✂]	[✂]	[✂]	[✂]

Source: CC analysis of GfK data.

75. Table 4 shows that customer views across Booker and Makro customer groups were broadly similar. There were, however, some disparities between caterers and retailers, with a significant difference in the propensity to use supermarkets, discounters and mail order/online. Caterers were much more likely to consider using these suppliers. The data also shows that more than half of the parties' caterer and retailer customers would consider using delivered wholesalers.

76. Another question in the survey asked the customers to state the sources of supply that they deemed 'important'. The cumulative responses are presented in Table 5.[12]

[12] We omitted a number of wholesalers which fell below 20 total responses when combining Booker, Makro and the 'other' category.

TABLE 5 **Sources of supply deemed important by the parties' customers**

Company name	*Booker caterers*	*Booker retailers*	*Makro caterers*	*Makro retailers*
Booker	[✂]	[✂]	[✂]	[✂]
Makro	[✂]	[✂]	[✂]	[✂]
Bestway	[✂]	[✂]	[✂]	[✂]
Batleys	[✂]	[✂]	[✂]	[✂]
Costco	[✂]	[✂]	[✂]	[✂]
Brakes	[✂]	[✂]	[✂]	[✂]
3663	[✂]	[✂]	[✂]	[✂]
JJ	[✂]	[✂]	[✂]	[✂]
Palmer and Harvey	[✂]	[✂]	[✂]	[✂]
Musgrave	[✂]	[✂]	[✂]	[✂]
Spar	[✂]	[✂]	[✂]	[✂]
Parfetts	[✂]	[✂]	[✂]	[✂]
Dhameca	[✂]	[✂]	[✂]	[✂]
Hyperama	[✂]	[✂]	[✂]	[✂]
Blakemore	[✂]	[✂]	[✂]	[✂]
Tesco	[✂]	[✂]	[✂]	[✂]
Asda	[✂]	[✂]	[✂]	[✂]
Morrisons	[✂]	[✂]	[✂]	[✂]
Sainsbury's	[✂]	[✂]	[✂]	[✂]
Aldi	[✂]	[✂]	[✂]	[✂]
LIDL	[✂]	[✂]	[✂]	[✂]
Hancocks	[✂]	[✂]	[✂]	[✂]
Waverley TBC	[✂]	[✂]	[✂]	[✂]
Kerry Group	[✂]	[✂]	[✂]	[✂]
Matthew Clark	[✂]	[✂]	[✂]	[✂]
LWC	[✂]	[✂]	[✂]	[✂]
Staples	[✂]	[✂]	[✂]	[✂]
Viking Direct	[✂]	[✂]	[✂]	[✂]
Bunzl	[✂]	[✂]	[✂]	[✂]
Other independent cash-and-carry wholesaler	[✂]	[✂]	[✂]	[✂]
Other independent food-service wholesaler	[✂]	[✂]	[✂]	[✂]
Other independent grocery wholesaler	[✂]	[✂]	[✂]	[✂]
Other independent specialist wholesaler	[✂]	[✂]	[✂]	[✂]
Other national delivered wholesaler	[✂]	[✂]	[✂]	[✂]
Other national drinks wholesaler	[✂]	[✂]	[✂]	[✂]
Other national non-food specialist wholesaler	[✂]	[✂]	[✂]	[✂]
Other national retailer	[✂]	[✂]	[✂]	[✂]
Other national specialist food wholesaler	[✂]	[✂]	[✂]	[✂]
Don't know	[✂]	[✂]	[✂]	[✂]
Grand total	[✂]	[✂]	[✂]	[✂]

Source: CC analysis of GfK data.

77. A large number of responses were recorded in the 'other wholesaler' categories, including noticeable mention of delivered wholesalers and drinks wholesalers for all customers. We interpreted the 'other' category with caution, as it appeared for some areas that interviewers may have used one of these categories as opposed to the specific wholesaler mentioned. As a result, these were likely to include responses that should be allocated to other competitors in Table 5.

78. For Booker's caterer customers, 'other national delivered wholesalers' and 'other national drinks wholesalers' were as likely to be mentioned as Makro. [✂] combined were mentioned twice as often as Makro. Among Makro customers, Booker was seen to be more important as a source of supply for retailers than Makro itself, and for caterers, Booker and other national delivered wholesalers were cited around half as often.

79. Supermarkets were sometimes used by retailers, but were used predominantly by caterers. This corroborates other data in the survey. We also noted a significant number of responses for [✂], a specialist confectionery wholesaler, from both sets of customers.

80. Respondents were also asked about the number of suppliers they use per month. The results are presented in Table 6.

TABLE 6 **Number of suppliers used by the parties' customers**

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	[✂]	[✂]	[✂]	[✂]

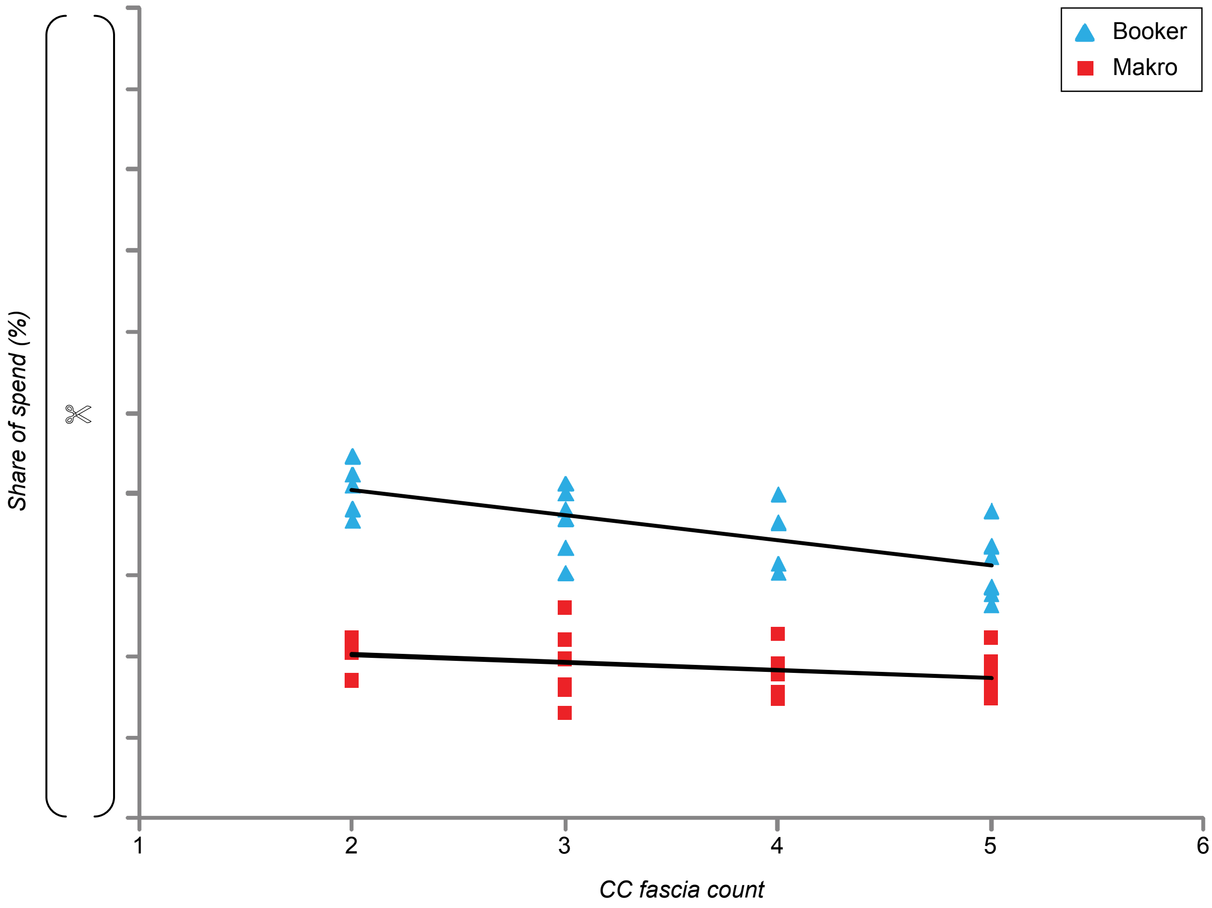
Source: CC analysis of GfK data.

81. Table 6 shows that a significant number—over [✂] per cent of Booker's customers and over [✂] per cent of Makro's—used more than four suppliers, with the majority using between four and ten. Furthermore, a very low number, fewer than [✂] per cent of all customers, used only one supplier.

82. The survey data also provided us with approximate share of spend for respondents. We conducted an analysis of these at the local level to understand further what impact a change in the number of local cash-and-carry wholesaler fascias could have on the parties' share of spend. The results are shown in Figure 1.

FIGURE 1

Share of spend against fascia count



Source: CC analysis of GfK survey data.

83. Figure 1 shows the parties' share of spend statistics as the number of cash-and-carry operators in the local area increases. We can see a small decline for Booker, and a marginal decline for Makro. This suggests that as the number of competitors is reduced, the parties' share of the local market does not significantly increase, and therefore multi-sourcing across non-cash-and-carry channels may not be dependent on the number of cash-and-carry operators available.

Harris International Marketing surveys

84. Booker provided a number of annual surveys carried out by Harris International Marketing which predominantly works within the FMCG industry.[13] We were supplied with annual surveys from 2009 to 2012 for the following customer groups:

(a) cash-and-carry caterers;

(b) cash-and-carry retailers;

[13] An inspection of the Harris International Marketing website showed a selected client list for 2011, which included all of the major cash-and-carry operators and delivered operators.

(c) delivered caterers; and

(d) delivered retailers.

85. Booker told us that the ‘best source of data on the competitiveness of its competitors comes from the Harris International Marketing surveys, in which over 3,000 retail and catering cash-and-carry customers are interviewed’.

86. Our analysis of Harris International Marketing surveys used 2011 data. We did not use the surveys from 2012, as Makro customers were not surveyed in this year, and some granularity was lost within some of the sections where we had a particular interest.

87. The surveys covered a number of topics, including visiting habits, time spent at cash-and-carry stores and basket size. However, we were particularly interested in questions relating to the multi-sourcing of goods by customers; how much of a customer’s demand was sourced from more than one supplier; and how this varied across customer groups.

Cash-and-carry customers

88. First, we considered the Harris International Marketing data on cash-and-carry customer preferences.

TABLE 7 **Cash-and-carry customers’ preferences**

Which 3 things on this list are most important to you when shopping in this cash & carry here today?

	All retailers—cash & carry retailer average	*All caterers—cash & carry caterer average*
Sample size	1,510	1,423
Value for money	57%	62%
Acceptable prices to me	46%	36%
Having the products I need in stock	27%	37%
Profit on return	26%	9%
Wide range of products	24%	28%
Fast & friendly service	20%	14%
Ease of getting around	16%	11%
Promotions	15%	12%
Location of store	12%	23%
Acceptable prices for my customers	12%	7%
Range and quality of fresh foods	10%	20%
Staff knowledge	10%	8%
Range of own label products	4%	3%
Relationships with depot staff	4%	1%
Opening hours	4%	6%
Cleanliness/tidiness	2%	3%
Other	2%	2%
Don't know	1%	1%

Source: CC analysis of 2011 Harris International Marketing data.

89. We found that the most important factors for cash-and-carry customers were value for money, price and availability. Profit on return was more important for retailers than caterers (as retailers purchase goods to sell on to end-consumers as opposed to use them as an input), whilst the range and quality of fresh foods and the location of store were more important for caterers.

90. Cash-and-carry customers were also asked about the percentage of goods that they sourced from various categories of wholesaler. Summarized findings are presented in Table 8.

TABLE 8 **Cash-and-carry customers' sources of supply**

What percentage of your wholesale goods are sourced from …

	All caterer—cash & carry caterer average	*All retailers—cash & carry retailer average*
Sample size	1,392	1,477
This cash & carry	51%	60%
Another cash & carry	12%	23%
A delivered wholesaler	20%	11%
A supermarket	9%	2%
A discounter	0.5%	0.5%
Elsewhere	7%	4%

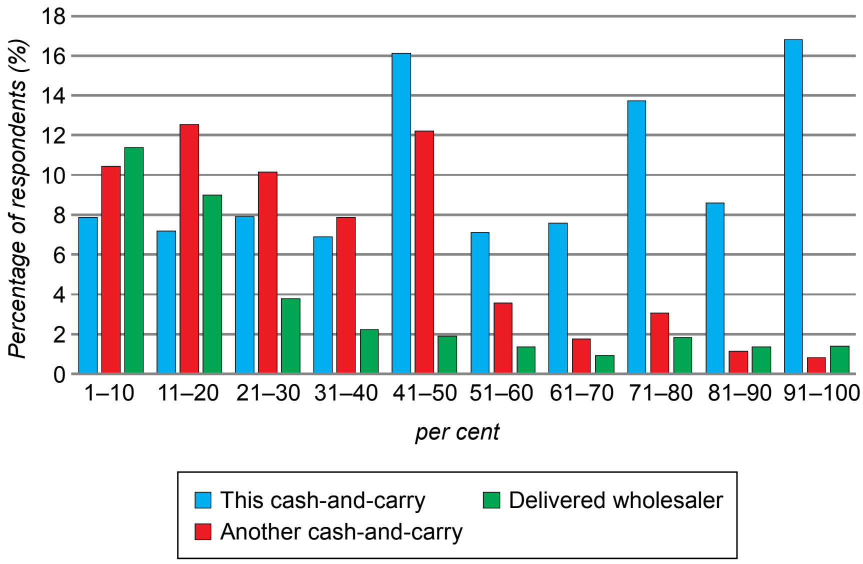
Source: CC analysis of 2011 Harris International Marketing data.

91. 51 per cent of the demand of cash-and-carry caterer customers was sourced from the cash-and-carry store at which they were surveyed. This was 60 per cent for retailers. In total, caterers sourced 63 per cent of their supply from cash-and-carry stores versus 83 per cent for retailers. For the majority of their remaining supply (29 per cent), cash-and-carry caterer customers used delivered wholesalers and supermarkets. Cash-and-carry retailer customers primarily used delivered operators for the rest of their supplies (11 per cent).

92. The figures in Table 8 are averages of responses. The distributions of customers' percentage of demand sourced from suppliers are presented below.[14]

FIGURE 2

Sources of supply, cash-and-carry retailers



Source: CC analysis of 2011 Harris International Marketing data.

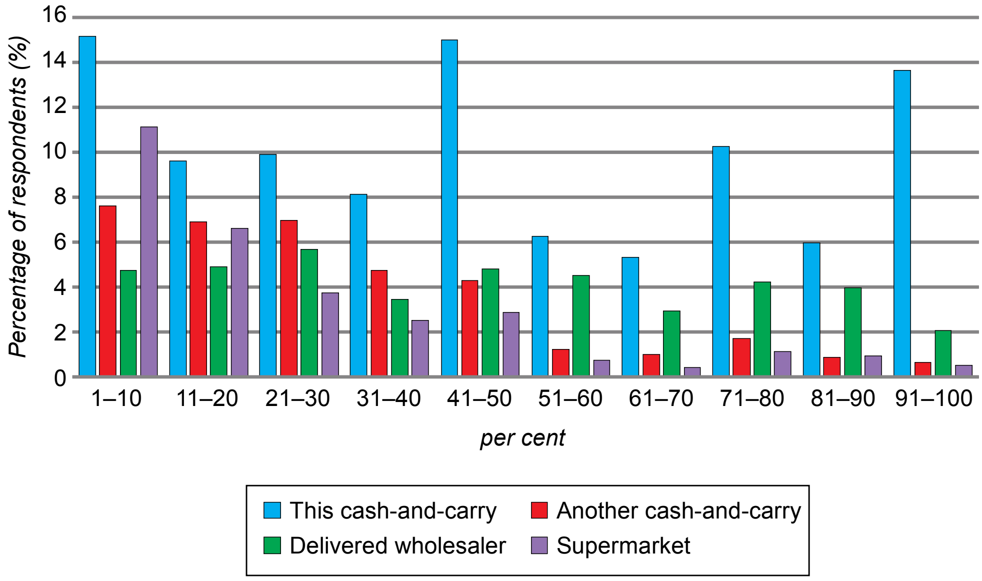
93. Cash-and-carry retailer customers vary in the percentage of supply sourced from the cash-and-carry store at which they were surveyed. Those using another cash-and-carry outlet tend to source less than 50 per cent of their supply from these operators.

[14] Channels of supply which respondents either never mentioned or mentioned infrequently have been omitted from the charts to maintain clarity.

Cash-and-carry retailer customers source less than 20 per cent of their goods using delivered wholesale. We consider caterers below.

FIGURE 3

Source of supply, cash-and-carry caterers



Source: CC analysis of 2011 Harris International Marketing data.

94. We observed that there was a fairly even distribution across the percentage of supply that 'this cash-and-carry' accounted for. This was also the case for delivered whole-sale, albeit with lower percentages of respondents overall. For 'another cash-and-carry', we observed that this was weighted toward a lower percentage of overall supply, as were supermarkets.

95. The Harris International Marketing survey also asked cash-and-carry customers why they visited more than one cash-and-carry store. These results are presented in Table 9.

TABLE 9 **Cash-and-carry customer preferences—multiple suppliers**

Which of the following encourages you to visit more than one cash & carry?

	All caterers—cash & carry caterer average	*All retailers—cash & carry retailer average*
Sample size	628	758
To find the cheapest prices	50%	63%
In order to get all the products I need	25%	33%
To get the best promotions and deals	15%	19%
Opening hours	4%	3%
For the different advice I receive	1%	2%
Own label products	1%	1%
Other (specify)	11%	6%
Don't know	25%	13%

Source: CC analysis of 2011 Harris International Marketing data.

96. Table 9 shows that the primary reasons for cash-and-carry customers to visit more than one cash-and-carry store were price, promotions and availability. There was some indication that retailers are more price sensitive than caterers.

97. Finally, we noted that the Harris International Marketing survey asked respondents for their average spend on that day. For retailers the average was about £1,060, with 32 per cent spending less than £300, and for caterers this was £273.50, with 80 per cent spending less than £300.

98. Overall, the Harris International Marketing survey shows that cash-and-carry customers do multi-source. Only 30 per cent of caterers and 39 per cent of retailers used the cash-and-carry store at which they were surveyed for more than 70 per cent of their supply, and customers were willing to use multiple suppliers to obtain the best prices. The data also suggested that the factors most important for cash-and-carry customers are value for money, price and availability. Finally, delivered wholesalers and the multiples were more important for caterers than for retailers.

Delivered

99. We considered the Harris International Marketing data on delivered customer preferences to see how this group of customers may differ or be similar to cash-and-carry users. Furthermore, we considered why these customers use delivered compared with other channels of supply.

100. We considered the percentage of wholesale goods that customers of delivered wholesalers source from a range of suppliers. The averages of these are presented in Table 10, and the distributions in Figures 4 and 5.

TABLE 10 **Delivered customers' sources of supply**

What percentage of your wholesale goods are sourced from …

	All caterers—delivered caterer average	*All retailers—delivered retailer average*
Sample size	238	235
Cash and carries	5%	27%
National delivered wholesalers	59%	41%
Local delivered wholesalers	13%	13%
Local suppliers	19%	15%
Supermarkets	1%	0.5%
Discounters	0%	0%
Elsewhere	3%	3%

Source: CC analysis of 2011 Harris International Marketing data.

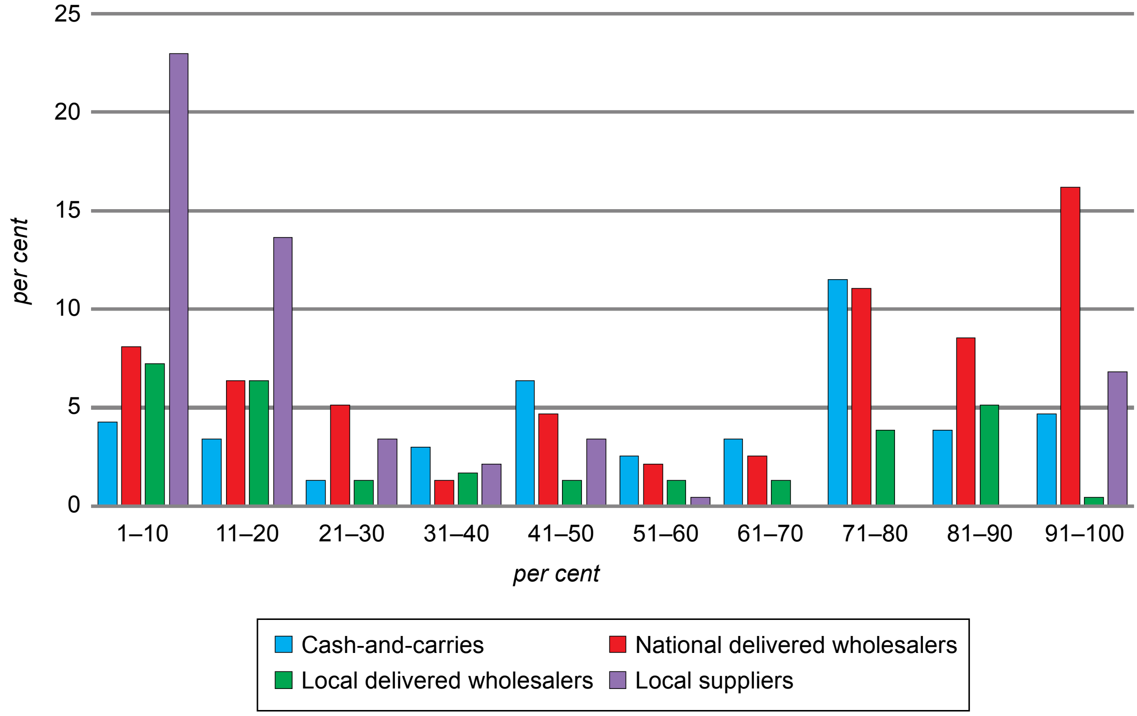
101. We observed two differences in the responses from caterer and retailer customers of delivered wholesalers. Whereas, on average, retailers source 27 per cent of their supply from cash-and-carry stores, the equivalent figure was only 5 per cent for caterers. We noted that this difference was filled by the national delivered wholesalers, which supplied 59 per cent of delivered caterer customers' goods and 41 per cent of retailers. For delivered customers, between 28 and 32 per cent of supply came from local operators.

102. We noted that these figures corroborated the views held by one third party in delivered foodservice, which stated that it was more likely to lose customers to local delivered operators than to the national cash-and-carry operators.

103. We considered distributions of supply from the different types of supplier for delivered customers, starting with retailers.

FIGURE 4

Sources of supply, delivered retailers



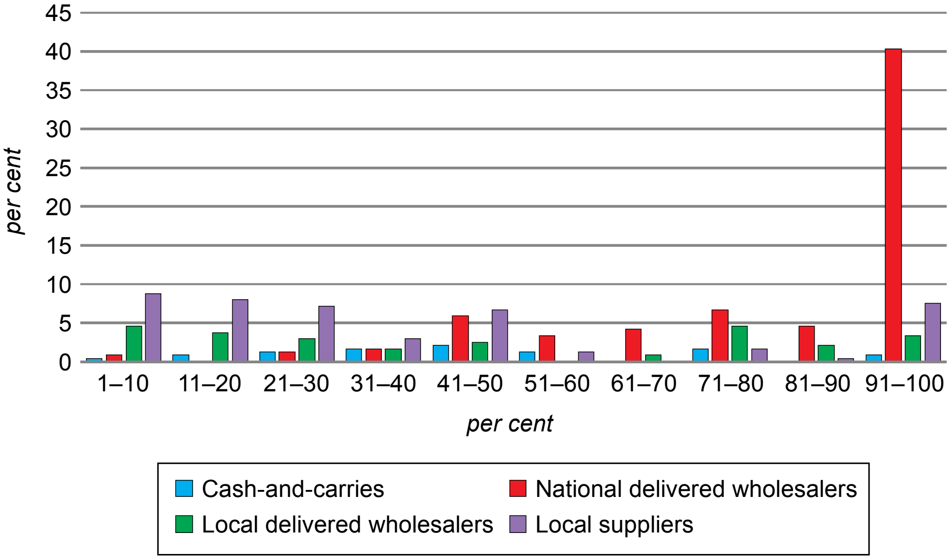
Source: CC analysis of 2011 Harris International Marketing Data.

104. Figure 4 shows that, while national delivered wholesalers had the largest role in supplying goods to retailers, cash-and-carry and local suppliers were also important. We also observed that local suppliers had a significant presence in supplying smaller proportions of retailers' demand. We considered this to be an indicator of 'top-up' shopping activity.

105. We also considered delivered caterers.

FIGURE 5

Sources of supply, delivered caterers



Source: CC analysis of 2011 Harris International Marketing Data.

106. Figure 5 shows that a significant number of delivered caterers use delivered suppliers for the majority of their goods. We noted that the distributions for other categories, including local suppliers and local delivered wholesalers, were much broader. Fewer than 5 per cent of delivered caterers use cash-and-carry outlets for over 50 per cent of their goods.

107. The survey also asked customers why they chose to use delivered wholesale as opposed to visiting a cash-and-carry store. These results are provided in Table 11.

TABLE 11 **Delivered customer preferences—delivered vs cash-and-carry operators**

Why do you choose to use a delivered wholesaler rather than visiting a cash & carry?

per cent

	All caterers—caterer average (n=991)	*All retailers—retailer average (n=240)*
More convenient	57	61
Price	13	13
Free delivery	9	10
Means I can spend more time in my business	6	10
Other	23	11

Source: CC analysis of 2011 Harris International Marketing data.

Note: We do not display results where less than 10 per cent of both customer groups listed it as a reason behind using delivered wholesale. These included promotions, range, freshness, and quality among other factors.

108. The results show that the primary factor behind using a delivered wholesaler was convenience. Price was the second most important factor; however, this was small in comparison with convenience. This differed significantly from cash-and-carry customers, who listed price and value as most important.

109. In summary, the Harris International Marketing data suggested that delivered retailers were more likely to use cash-and-carry than delivered caterers, which tended to place a greater weight on delivered services.

IMAS survey

110. In 2008, Makro commissioned a survey of its customers from IMAS International. It surveyed around 1,400 customers and potential customers, with the objective of establishing how Makro's customer base operates and what products and services it looks for from its suppliers. There were two questions used in the survey that are of interest to this inquiry. The first relates to the distribution of purchases made in-store against delivered purchases. The second considers the changes over time in the relative importance of different channels of supply. The results are presented in Figure 6.

FIGURE 6

Delivered against cash-and-carry supply

[✄]

Source: IMAS, 2008.

111. Figure 6 shows the approximate distribution of collect versus delivered sales for Makro customers and non-Makro customers in 2008. These are split by catering (HoReCa), retail (trader) and CBU customers (eg offices).

112. There do not appear to be any customer groups that used far more of one channel than the other, and only 10 to 15 per cent of customers said that they only used stores or delivered. Most customers used a mix of store and delivered sourcing. There were some slight differences within the HoReCa category, with restaurants more likely to have used delivered services than the other types of HoReCa business, and the canteen/caterer subgroup more likely to have used collect than the other types of HoReCa business.

113. We also noted some slight variation in the frequency of wholesale purchases and the preference for collect against delivery. Customers that purchased goods daily or almost daily were more likely to use delivered operators than to collect. There was little variation in the other categories.

114. Overall, the distributions showed that Makro customers typically sourced from both delivered and collect channels, with a relatively even distribution of usage across the channels.

115. The survey also asked customers about how important different channels of supply had become over the past one to two years. The results of this are presented in Figure 7.

FIGURE 7

Importance of delivered operators

[✄]

Source: IMAS, 2008.

116. Figure 7 shows that delivered wholesale and obtaining goods directly from the source had become increasingly important for many of the HoReCa customers, with less than [✄] of respondents indicating that these sources of supply had reduced in importance. Food markets had reduced in importance. For trader customers, cash-and-carry and delivered wholesale had substantially increased in importance, with

food markets and supermarkets/discounters having both seen large declines in importance.

117. In a separate question, the IMAS survey asked whether, over the past one to two years, delivery had become more or less important. IMAS presented the data across four regions,[15] which showed that there was negligible difference in opinion—[✂]. Delivered had become more important or held the same level of importance for the majority of respondents in all areas.

118. Overall, the IMAS survey broadly supported what we had seen in the other surveys and what we had been told by the main and third parties. It also provided evidence on the extent to which customers multi-source. From this survey we observed that customers that require regular purchasing of goods were more likely to use delivered operators.

Booker's internal survey

119. Booker provided a report considering various internal data analyses on customers, an internal survey, evidence from the surveys outlined above and a case study. Broadly, these pieces of evidence showed that the parties' average share of their customers' total yearly expenditure on wholesale groceries was relatively low, and that this share of spend was low for all business types:

TABLE 12 **Booker's estimated share of total wholesale spend**

	%	*Average yearly spend (£)*
Public houses	[✂]	[✂]
Restaurants	[✂]	[✂]
Accommodation	[✂]	[✂]
Fast food/takeaways	[✂]	[✂]
Convenience stores	[✂]	[✂]
Forecourts	[✂]	[✂]

Source: Frontier.

120. We also considered an internal survey conducted by Booker of its catering customers that was conducted for this inquiry. Booker completed this additional survey to address the limitations of the GfK survey discussed above, which 'was unable to ask detailed questions regarding customer purchasing behaviour'. To undertake this survey, Booker used three staff from each of its seven regional sales teams to contact a sample of the Booker caterer customer base, in order better to understand how customers sourced products. This found that the catering respondents used a number of different supply channels. The results are presented in Table 13.

[15] These were the Midlands, South-West, North & Scotland and South-East.

TABLE 13 **Average channel share of spend by customer type**

						per cent
	All	*Pub*	*Club*	*Hotel*	*Takeaway*	*Restaurant*
Cash and carry collect	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Cash and carry delivered	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Delivered wholesaler	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Specialist wholesaler	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Direct manufacturer supply	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Supermarket	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Local supplier collect	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Local supplier delivered	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Frontier.

121. Table 13 shows the estimated share of spend by channel for catering customers. We noted that these results suggested that cash-and-carry collect operators have a relatively low, [✂] per cent, share of overall catering demand.

APPENDIX G

Counterfactual

Introduction

1. This appendix sets out our assessment of the counterfactual to the acquisition of Makro by Booker. It covers the following areas:

   (a) the views of Booker and Metro on the counterfactual; and

   (b) our assessment of the counterfactual.

Summary of views of Booker and Metro

Booker

2. According to Booker, if the acquisition of Makro had not taken place, Metro would have had no realistic option but to exit the UK market through the disposal or closure of the Makro business in the short to medium term, because:

   (a) Makro had not been profitable since 2006, despite the implementation of numerous turnaround plans, [✂].

   (b) Makro had been reliant on annual parent company guarantees and an injection of £[✂] million from Metro in October 2010 in a debt for equity swap in order to stabilize Makro's credit position. Without the equity injection, Makro's net debt would have increased from £[✂] million in 2009 to £[✂] million in 2010. Booker believed that the Metro guarantee was important for third parties, in particular suppliers, in enabling them to operate on a 'business as usual' basis with Makro.

   (c) The only other viable alternative to a sale to Booker was a sale to a distressed business specialist, as other potential purchasers, [✂], were only interested in purchasing a limited number of Makro sites. In addition, [✂], since 2008, chosen to invest in greenfield store development or other acquisitions to grow their respective businesses.

3. Booker asserted that this view was supported by Metro's previous attempts to sell or restructure the Makro business and the fact that other wholesalers or retailers facing similar circumstances to Makro had been forced to close.[1] Booker submitted that, with the exception of one or two of the profitable stores, notably [✂], 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 its alternative use. As such, Booker would have expected Makro to exit the market.

[1] For example, the sale of MFI to Retail Merchant Partners, Comet to OpCapita and WTBS to Manfield Partners. In these scenarios, the business was closed around 12 months following the sale and the value from property and stock was subsequently realized.

Metro

4. According to Metro, in making the decision to approve the sale of Makro to Booker, Metro's board considered [✄]:

   [✄]

5. Having previously been unable to sell the Makro business [✄].

6. [✄]

Our assessment

Would Makro have exited the market?

Recent financial performance

7. Makro's recent history had been one of poor financial performance—it had been loss making since 2006. The reasons for Makro's recent underperformance are detailed in Appendix C.

8. Makro's recent financial performance is summarized in Table 1.

TABLE 1 **Makro key financials, 2008 to 2012**

£ million

	Financial years ended 31 December						
	2008 Actual	*2009 Actual*	*2010 Actual*	*2011 Actual*	*2012 Forecast*	*2012 YTD**	*2012 Revised forecast†*
Revenue	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Gross profit	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Gross profit margin (%)	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Operational EBIT‡	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Adjusted EBIT§	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]

Source: Makro management accounts.

---

*2012 year to date (YTD) figures represents trading performance from 1 January 2012 to 30 November 2012.
†The 2012 revised forecast is based on actual performance to 30 November 2012 and forecast performance in December 2012.
‡Operational EBIT is calculated by dividing operating EBIT by turnover.
§The management accounts do not provide a YTD or revised forecast service fee adjustment. We have therefore assumed an adjustment of [✄] in line with the original forecast, in order to calculate the adjusted EBIT.

9. [✄]

10. [✄]

11. [✄]

Turnaround strategy for Makro

12. Since [✄] Metro had explored a number of strategic options to reduce its exposure to losses in the UK [✄].

13. [✄]

14. [✄]

15. [✂]

16. [✂]

17. [✂]

18. According to Booker, the sales growth and margin assumptions determined by [✂] were unrealistic, [✂].

19. According to KPMG, appointed by Booker in March 2012 to perform financial land tax due diligence on Makro, there appeared to be limited support for a number of key components of [✂] range and space review, which suggested significant risk to the achievability of the forecasts.

20. Metro said that [✂].

21. [✂]

Metro's views on exit

22. [✂] until the sale of the Makro business to Booker, Metro maintained a dual strategy of attempting to restructure the Makro business, in order to return it to profitability, and exploring opportunities to sell the business.

23. [✂]

24. Metro told us that its decision to sell the Makro business to Booker was considered against the alternative scenarios of [✂].[2]

25. [✂]

26. [✂]

27. [✂][3]

28. [✂]

29. [✂]

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

30. [✂] We therefore considered previous expressions of interest in Makro (by parties other than Booker) and other parties referred to in Metro's internal documents, in order to assess the likelihood of an alternative purchaser.

Sale of the entire Makro business

Previous expressions of interest in Makro

- *[✂]*

31. [✂]

---

[2] [✂]
[3] [✂]

- *[✂]*

32. [✂][4]

33. [✂]

34. [✂] Costco also confirmed that it had only ever declared interest in certain Makro stores and not the entire Makro business.

35. [✂][5] which in our view would seem to rule out its interest in two of the ten Makro stores it had been interested in—Leicester and Southampton; [✂] and in our view is not likely to be interested in Makro stores in these locations.

36. Booker also told us that recent discussions between Booker and [✂] in the context of the OFT stage of this merger inquiry suggested that [✂] would have only been interested in three Makro stores [✂]. Booker also told us that [✂] expressed no interest in acquiring any of the Makro stores during the OFT process.

Other potential purchasers

- *Other wholesalers*

37. In March 2008, in addition to its recommendation of [✂] as the most suitable purchaser of the Makro business, OC&C Strategy Consultants also considered [✂] as a potential buyer. However, [✂].

38. In August 2008, when considering [✂], Metro identified [✂].

39. According to Booker, the Makro stores were not particularly attractive to other wholesalers, because:

    (a) alternative commercial property was readily available in most locations;

    (b) Makro stores tended to be structurally different from other wholesalers' stores;

    (c) previous attempts to dispose of individual Makro stores had not generated any interest from wholesale buyers;[6] and

    (d) the [✂] stores were the only stores that were not loss making and were the only stores to generate any interest from potential acquirers when approached by Booker during the OFT process.

- *Other parties*

40. In September 2008, Metro concluded that [✂].

41. However, during its negotiations with Metro, Booker did note that [✂] might bid more for the Makro estate, as some locations could have been redeveloped into retail superstores.

---

[4] [✂]
[5] [✂]
[6] Metro's sale of Makro's Coventry, Swansea and Wolverhampton stores in 2009 [✂]. The stores [✂] and were subsequently sold to non-wholesalers.

42. Metro did consider [✂]. In a briefing pack dated 4 March 2012, Booker noted that a benefit of its acquisition of Makro was the reduced risk of Makro being sold to [✂] or [✂], which suggests that a larger supermarket operator may have been interested in the Makro stores. However, any such interest would have been complicated by the operator's requirement to comply with the A1 planning requirements governing retailers. These are more restrictive than the B8 planning requirements governing wholesalers.

43. According to Booker, given the lack of apparent interest from [✂] or [✂], Metro's only viable alternative to selling Makro to Booker was a sale to a distressed business specialist. With the exception of one or two of the profitable stores, Booker believed that the stores would have been sold to non-food wholesale buyers, who would have closed down the Makro business and maximized the property proceeds, given that the land value would be higher in its alternative use.

Sale of individual Makro stores

44. We have considered what the counterfactual would have been in those local areas where we held competition concerns at the final stage of our local competitive assessment (see Section 8 in the provisional findings). The four areas that we have considered in the remainder of this section are therefore Hull, Ipswich, Norwich and Poole.

45. In order to assess the likelihood of individual stores in these local areas being acquired by another wholesaler, we have considered a number of factors:

(a) store profitability;

(b) purchaser interest in the stores; and

(c) evidence and analysis provided by the parties on likely interest in the stores.

Store profitability

46. Table 2 sets out Makro's store profitability in all 30 locations in which it was present.

TABLE 2 **Makro store portfolio**

£

Financial years ended 31 December

Store	*2012* *Sales*	*Gross profit*	*EBIT*	*2011* *EBIT*
Liverpool	[✂]	[✂]	[✂]	[✂]
Preston	[✂]	[✂]	[✂]	[✂]
Glasgow	[✂]	[✂]	[✂]	[✂]
Nottingham	[✂]	[✂]	[✂]	[✂]
Reading	[✂]	[✂]	[✂]	[✂]
Hull	[✂]	[✂]	[✂]	[✂]
Cardiff	[✂]	[✂]	[✂]	[✂]
Queensferry	[✂]	[✂]	[✂]	[✂]
Edinburgh	[✂]	[✂]	[✂]	[✂]
Aberdeen	[✂]	[✂]	[✂]	[✂]
Stoke	[✂]	[✂]	[✂]	[✂]
Birmingham	[✂]	[✂]	[✂]	[✂]
Exeter	[✂]	[✂]	[✂]	[✂]
Manchester	[✂]	[✂]	[✂]	[✂]
Teesside	[✂]	[✂]	[✂]	[✂]
Norwich	[✂]	[✂]	[✂]	[✂]
Bristol	[✂]	[✂]	[✂]	[✂]
Leeds	[✂]	[✂]	[✂]	[✂]
Ipswich	[✂]	[✂]	[✂]	[✂]
Belfast	[✂]	[✂]	[✂]	[✂]
Enfield	[✂]	[✂]	[✂]	[✂]
Leicester	[✂]	[✂]	[✂]	[✂]
Newcastle	[✂]	[✂]	[✂]	[✂]
Sheffield	[✂]	[✂]	[✂]	[✂]
Park Royal	[✂]	[✂]	[✂]	[✂]
Poole	[✂]	[✂]	[✂]	[✂]
Croydon	[✂]	[✂]	[✂]	[✂]
Southampton	[✂]	[✂]	[✂]	[✂]
Charlton	[✂]	[✂]	[✂]	[✂]
Rayleigh	[✂]	[✂]	[✂]	[✂]

Source: Grant Thornton as Monitoring Trustee to the Inquiry.

47. Table 2 illustrates improved profitability across most stores in the financial year ended 31 December 2012 compared with the financial year ended 2011. With regard to store profitability in the four local areas where we have particular concerns:

[✂]

Purchaser interest in the stores

- *Costco*

48. [✂] (see paragraph 33). However, when approached by Booker in the context of a possible phase one divestiture, [✂].

49. [✂]

50. [✂]

- *[✂]*

51. [✂]

52. [✂]

53. [✂]

- *Other potential purchasers*

54. Parfetts told us that it would not have been interested in purchasing any of the 18 Makro stores for which we conducted local analysis if the acquisition of the Makro business by Booker had not taken place.

55. We also asked Blakemores and Dhamecha if they would have been interested in any of the 18 Makro stores if the acquisition of the Makro business by Booker had not taken place. We did not receive any response and have seen no evidence to suggest that they would have been.

56. [✂]

57. [A large grocery retailer] told us that it was not currently active in the wholesaling market and, as such, if it looked to acquire any of the Makro sites then it would be as premises not stores. However, [the large grocery retailer] had not looked at acquiring any of the Makro sites at this time and none of these stores would be a strategic preference for it, and any acquisitions would depend on the commercial details of the negotiations.

- *Evidence and analysis provided by the parties on likely interest in the stores*

58. [✂][7]

59. Booker said that the Makro stores were unsuitable for other wholesalers due to their large size and retail format.[8]

60. Booker also pointed towards Makro's recent experience in trying to sell stores in Swansea, Coventry and Wolverhampton. It submitted that there was no reason to think that the Makro stores in Hull, Ipswich, Norwich and Poole would attract any more trade interest than the stores in Swansea, Coventry and Wolverhampton, which were sold to non-trade buyers.[9] This was because the estimated level of customer demand in Swansea, Coventry and Wolverhampton was significantly greater than in each of Hull, Ipswich, Norwich and Poole (see Table 3). It added that, after adjusting the store values for the surrounding market size, each of the four stores was more expensive than in Wolverhampton, Coventry and Swansea.

[7] [✂]
[8] With the exception of the Teesside store, the Makro stores in all 18 locations where the CC has performed detailed local analysis are over [✂] sq m. In contrast, an average Booker store is [✂] sq m. The Makro stores have typical retail site features, such as large car parks, air conditioning and mezzanine floors.
[9] Makro's Coventry, Swansea and Wolverhampton stores were closed in 2009 and subsequently sold to non-wholesalers in May 2012, October 2010, and September 2012 respectively.

TABLE 3 **Booker market size estimates**

Store	*Market size within 30 minutes £m*
Coventry	[✄]
Wolverhampton	[✄]
Swansea	[✄]
Poole*	[✄]
Norwich	[✄]†
Hull	[✄]†
Ipswich	[✄]†

Source: Booker.

*Booker does not have a store in Poole, but its Bournemouth store is only 15 km away from Makro's Poole store and is therefore considered as residing in the same local market.
†Booker provided us with two different figures for the market size/demand in Poole, Hull, Ipswich and Norwich. We have provided both figures in the table. For Hull, Ipswich and Norwich, the lower figures are centred on the relevant Booker store, whereas the higher figures are centred on the relevant Makro store, and vice versa for Poole.

61. Makro submitted an analysis of the likely purchasers of its 30 stores. It said that [✄] of its stores had development potential and if it were able to realize the development potential of these stores, the estimated value of the store portfolio would be £[✄] million (see Table 4). Of these [✄] stores, Makro believed that [✄] stores would have a better alternative use than wholesale, including the [✄], [✄], [✄] and [✄] stores. However, Makro's analysis suggested that the [✄] stores did not have a better alternative use.

TABLE 4 **Makro store development potential and estimated alternative use value**

Store	*Store area sq m*	*Vacant possession value* £m*	*Estimated development value† £m*	*Level of alternative use/development potential*	*Best alternative use*	*Potential purchaser*
Aberdeen	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Belfast	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Birmingham	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Bristol	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Cardiff	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Charlton	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Croydon	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Edinburgh	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Enfield	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Exeter	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Glasgow	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Hull	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Ipswich	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Leeds	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Leicester	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Liverpool	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Manchester	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Newcastle	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Norwich	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nottingham	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Park Royal	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Poole	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Preston	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Queensferry	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Rayleigh	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Reading	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Sheffield	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Southampton	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Stoke	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Teesside	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total		[✂]	[✂]			

Source: Makro.

*The vacant possession values are based on estimates from Cushman & Wakefield in May/June 2012.
†The estimated development values assume that there are no abnormal costs which would significantly affect the store value and that planning consent has been granted for the alternative use stated.

Our assessment

62. We first considered who the potential pool of trade purchasers would have been for the stores. We noted that the size of the Makro stores, with a square metreage of between 9,613 (Hull) and 10,970 (Ipswich), was such that only the largest cash-and-carry wholesalers would be interested in and capable of operating the stores. Smaller cash-and-carry wholesalers such as Blakemore, Parfetts and Dhamecha did not express any interest in the stores and, given the size of the stores, we found that they would be unlikely to have acquired the stores. We therefore focused our assessment on whether or not Bestway or Costco would have been likely to acquire some or all of these stores.

63. We considered which stores Bestway and Costco would have been likely to have been interested in. We found the following evidence for the Hull store:

(a) [✂]

(b) Costco [✂] and considered that the demographics were unsuitable for it.

(c) Makro's analysis suggested that this store would be most likely to have been acquired by a developer or investor and its best alternative use would be as retail outlet.

64. Based on this evidence, it was our judgement that on balance the most likely outcome for the Hull store was that it would have been acquired by a non-cash-and-carry wholesaler.

65. We next considered the Ipswich, Norwich and Poole stores. We found the following evidence:

(a) [✂]

(b) [✂] but had not sustained that interest when offered the stores by Booker in 2012, even though it still lacked a presence in these three local areas. [✂] had also told us that the Ipswich market was ‘too small’ but had expressed an interest to us in the Norwich and Poole stores.

(c) Bestway lacked a presence in all three local areas and Bestway told us that it would potentially have been interested in exploring the opportunity to purchase the Makro business, or some of the 18 Makro stores that were the subject of our local analysis, if the acquisition of Makro by Booker had not taken place.

(d) The uncertainty regarding available sites above 1,858 sq m in these three areas as set out in Appendix J means that suitable sites for Costco and Bestway would have been hard to find and the availability of the Makro stores would therefore have been of significant interest to them.

(e) Makro’s analysis suggested that the Poole store was mostly likely to have been acquired by a developer to be converted into a residential building. In contrast, the Ipswich and Norwich stores did not have an identified better alternative use.

66. Based on this evidence, we believe that on balance the most likely outcome for these stores is that they would have been sold as part of a broader package of stores (for example, including Charlton, Nottingham and Park Royal) to either Bestway or Costco a mix of both parties. On that basis, we found that the most likely outcome for these stores in the counterfactual is that they would have been operated by a competing cash-and-carry wholesaler.

67. We considered Booker’s arguments that planning restrictions would have restricted Costco’s interest in these areas and that experience from previous sales of Makro stores indicate that they are unlikely to be sold to cash-and-carry wholesalers. More detail on Booker’s arguments is set out in Appendix G. We found that:

(a) Planning consent restrictions would not have been likely to have restricted Costco’s interest in these stores given that it had [✂].

(b) Makro’s attempt to sell its stores in Coventry, Swansea and Wolverhampton is not necessarily indicative of the potential outcome in Ipswich, Norwich or Poole. For example, Bestway has stores in Coventry and Swansea so would not have been an interested bidder. It does not have a store in Wolverhampton, but this area is most likely served by its Coventry and Birmingham stores. Costco did not have a store in Coventry at the time of Makro’s attempt to sell its Coventry store. However, Costco did not express any interest in the Makro store and instead built a new store in Coventry, which opened in 2010. It does not have a store in Wolverhampton, but this area is again likely to be served by its Coventry and Birmingham stores.

68. We have therefore provisionally concluded that the outcome of a sale process in Ipswich, Norwich and Poole would have been likely to have been a sale to a cash-and-carry wholesaler.

What would have happened to the sales of Makro in the event of its exit?

69. Based on our assessment, the sales of the Makro stores in Ipswich, Norwich and Poole would have been gained by the acquirer of the stores, ie Bestway or Costco. In Hull, we found it most likely that the store would have been bought by a non-wholesaler and therefore would have exited the wholesale grocery market.

Local markets

Introduction

1. This appendix provides our detailed analysis of 11 local markets identified as raising potential concerns. The methodology used to identify these markets is described in the provisional findings, paragraphs 8.58 to 8.60.

2. We first set out the methodology we used for the local analysis, and then analyse each area in turn.

3. In each local area we identified the location of the Makro store and the population level in the urban area. We classified an urban area with a population level below 200,000 as being small, between 200,000 and 500,000 as being medium-sized and above 500,000 as being large.[1] We also considered whether the area within which the Makro store is located has good transport links and the proximity to any neighbouring areas with wholesale operators that may exert a competitive constraint on the parties.

4. Our analysis of competitors initially focused on the presence of national and large regional cash-and-carry operators. The set of national operators is Bestway/Batleys, Booker, Costco and Makro. The set of large regional cash-and-carry operators is Blakemore, BA Cash and Carry, Dhamecha, Hyperama, Parfetts and United. We considered competitors to be relevant if they are located within a 30-minute isochrone of the Makro store. Within the local analysis we consider competitors also to be relevant if they are located outside the Makro isochrone but have an overlapping isochrone with a significant number of Makro customers located in the area of overlap.

5. The initial filtering process was based on a conservative approach that considered only national and large regional cash-and-carry operators to be relevant competitors. However, we found that national delivered operators and local cash-and-carry operators (particularly those that are members of buying groups) may also provide a relevant competitive constraint. We took these competitors into account in our detailed analysis where they were relevant to the local area. We were told that delivered operators travelled different distances from their depots. On the basis of the information received, we considered a delivered operator to be a relevant competitive constraint if they were located within approximately 60 minutes' drive-time of the Makro store. We considered the national delivered operators to be 3663, Brakes, JJ and Palmer and Harvey. We note that this approach is conservative, as it excludes significant delivered retail competitors that can be accessed through symbol group membership (ie Musgrave and Nisa). We also note that some delivered operators cover much more significant distance from their depots, particularly in retail.[2]

6. We also took into account evidence from the GfK survey commissioned by the parties as part of this inquiry (the 'survey') that provides us with data on likely customer behaviour. This survey is described in more detail in Appendix D. As described in that appendix, a limitation of the survey is the low number of responses at a local level. Therefore, while we calculated diversion ratios and GUPPI estimates as part of

[1] The population and the definition of urban areas are based on the 2001 Census by the ONS.
[2] For example, Musgrave told us that its delivered retail service covered most of the UK from four depots.

our analysis, we did not give these undue weight in the analysis at the local level. The key metrics calculated from the survey are outlined below:

(a) *Share of spend.* A high share of spend is consistent with a low number of competitors in the market. Thus, we would expect the share of spend to decrease with an increasing number of fascias. We considered the share of spend to be low if most of the respondents stated that they spent less than 30 per cent of their total spend with Booker or Makro, moderate if most of the respondents stated that they spent less than 50 per cent with Booker or Makro and high if most of the respondents stated that they spent more than 50 per cent with Booker or Makro.

(b) *Diversion ratios.* A high diversion ratio implies that the companies are close competitors. Furthermore, we would expect diversion ratios to be higher in the case of a low number of competitors. In this case, classified diversion ratios above 30 per cent indicate the need for detailed analysis of the local area.

(c) *Gross Upward Pricing Pressure Index (GUPPI).* A given diversion level is less concerning in a low-margin industry than in a high-margin industry as any recaptured sales are less profitable, which reduces the post-merger incentive to increase price. We therefore used GUPPI to combine diversion ratios and margin information.[3] GUPPI measures the strength of the incentive to increase price post-merger by measuring the value of previously lost sales that is recaptured as margin following the merger.[4]

7. The analysis of the 11 local areas is outlined in detail below.

Bristol

8. The Bristol urban area is located in south-west England and has a population of 551,000, which we classified as being large. Bristol has direct access to two motorways (the M4 and M5).

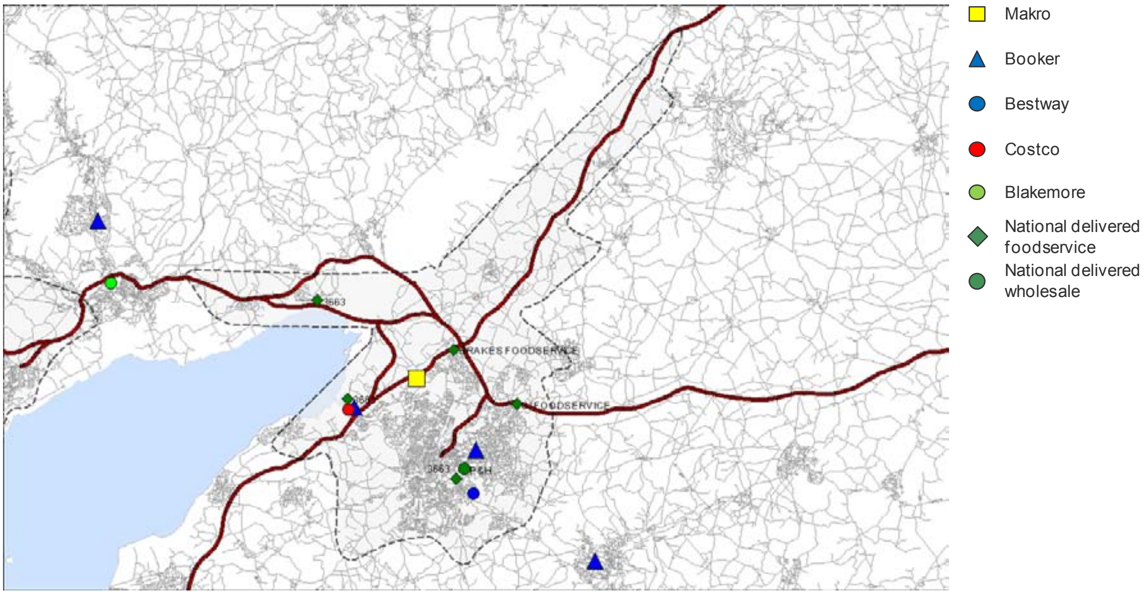
9. There are two Booker stores which can be reached within 30 minutes' drive-time of the Makro store. One Booker store is located in Bristol and the other in Avonmouth. Furthermore, two additional cash-and-carry operators have stores within a 30-minute isochrone of the Makro store. These are Costco and Bestway. Makro, Costco and Booker (Avonmouth) are located north-west of Bristol while Booker (Bristol) and Bestway are located to the south-east of the city. Figure 1 shows Bristol and the location of different fascias within 30-minute and 60-minute isochrones of the Makro store.

[3] A full description of used Booker margins is included in Appendix I. Makro margins are based on notional profit (sales value – cost of goods at 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).

[4] 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. The margins used were average store-wide margins.

FIGURE 1

Other fascias within a 30-minute isochrone in Bristol



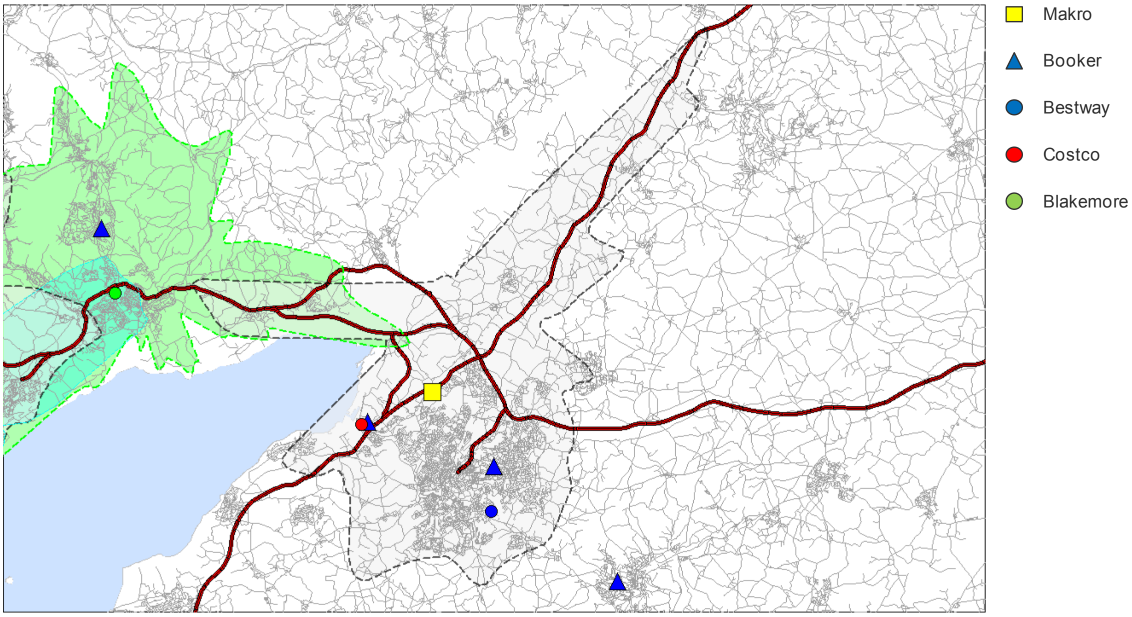
Source: Parties' submissions, CC analysis.

10. The merger reduces the number of national and large regional cash-and-carry fascias within a 30-minutes drive-time of the Makro store from four to three.

11. We considered competitors located close to the 30-minute drive-time isochrone to be relevant if we can identify significant overlapping areas between the Makro isochrone and the isochrone of the competitor. The market delineated by a 30-minute isochrone in Bristol has an overlap with the 30-minute isochrone of a Blakemore store located in Newport. Figure 2 illustrates the overlap areas.

FIGURE 2

Overlapping areas in Bristol (30-minute isochrone)

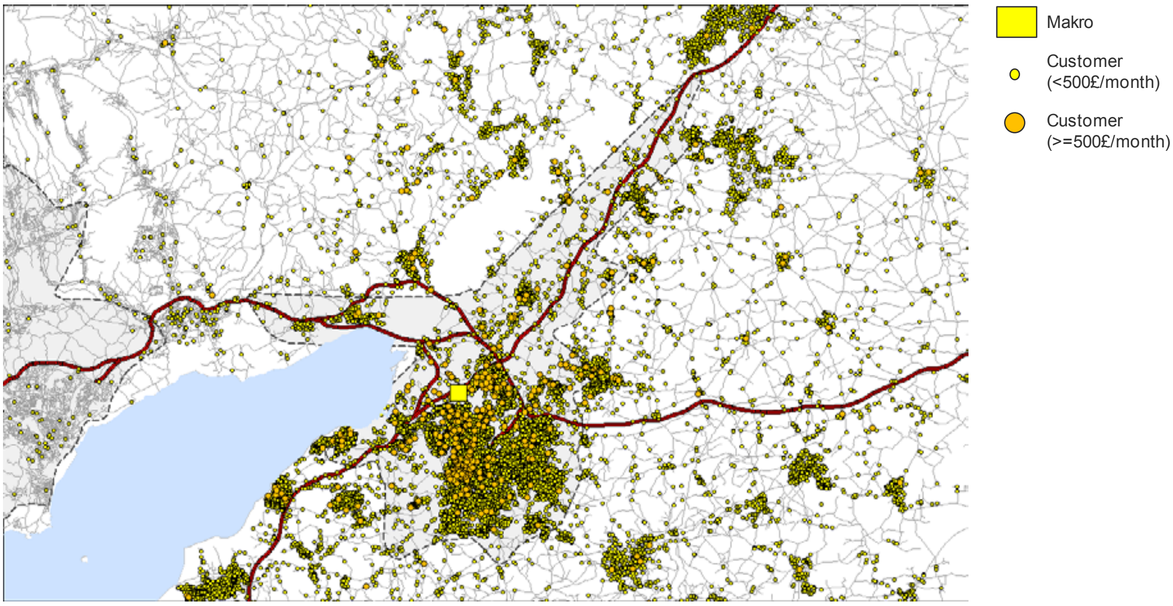


Source: Parties' submissions, CC analysis.

12. A review of the customer distribution in the local area showed that customers are widely distributed across the Bristol local market within the 30-minute isochrone. A significant number of Makro customers are located outside the defined isochrone, showing that some customers are willing to drive further than 30 minutes to the Makro cash-and-carry store. However, the number of customers located within the area overlapping with Blakemore's isochrone is limited, and as a result we do not consider Blakemore to be a significant constraint. Figure 3 shows the distribution of Makro customers within the 30-minute isochrone in Bristol.

FIGURE 3

Customer distribution in Bristol (30-minute isochrone)



Source: Parties' submissions, CC analysis.

13. We then considered delivered operators. Four major national delivered operators have a depot within a drive-time of 30 minutes of the Makro store in Bristol. These are 3663, Brakes, JJ and Palmer and Harvey.

14. The survey results give an estimation of the parties' share of customers' total spend.[5] As noted above, the survey results should be considered to be indicative, as they are based on a low number of responses in local areas. Overall, Booker has a higher proportion of its customers' total spend than Makro has of Makro customers'. [✂] per cent of Booker's and [✂] per cent of Makro's catering customers spend less than [✂] per cent of their spend with the respective party. Retail customers' share of spend with Booker is higher. Nearly [✂] per cent of retailers source over [✂] per cent of their supply from Booker whilst Makro's retail customers all source less than [✂] per cent of their supply from Makro, with [✂] per cent of these sourcing less than [✂] per cent of supply.[6] The shares of spend for both Booker and Makro caterers, and Makro retailers, were considered to be low. Shares of spend for Booker retailers were considered to be moderate. This suggests that there are a number of other suppliers in the market from which customers source their products.

15. The diversion ratios from Booker to Makro range between [✂] and [✂] per cent depending on customer group and weighting. We considered these diversion ratios to be low. Makro diversion ratios are higher. Diversion ratios for Makro caterer customers range between [✂] and [✂] per cent with unweighted diversion ratios being lower than those weighted by monthly spend. Diversion ratios for Makro retailer customers range between [✂] and [✂] per cent with unweighted diversion ratios being lower than those weighted by monthly spend. They are high for both customer groups. The difference in diversion ratios between the two parties may imply that

---

[5] Share of spend is the proportion of spending on supplies sourced from Booker or Makro.
[6] These results are based on a very low sample size. In Bristol, these were for Booker caterer (32), retailer (18) and whole sample (65) and for Makro (caterer (18), retailer (32) and whole sample (89)). 'Don't know' responses were not considered.

Booker is a more relevant alternative for Makro customers than the other way around.

16. GUPPI estimates have been calculated with unweighted and with monthly-spend weighted diversion ratios. In the case of Bristol, all GUPPI estimates are low.

17. To summarize, the cash-and-carry fascia count reduction in Bristol is four to three post-merger. The survey reports low to moderate shares of spend for the parties, consistent with there being other significant competitors in the market. We found that four major delivered competitors operated in the local area.

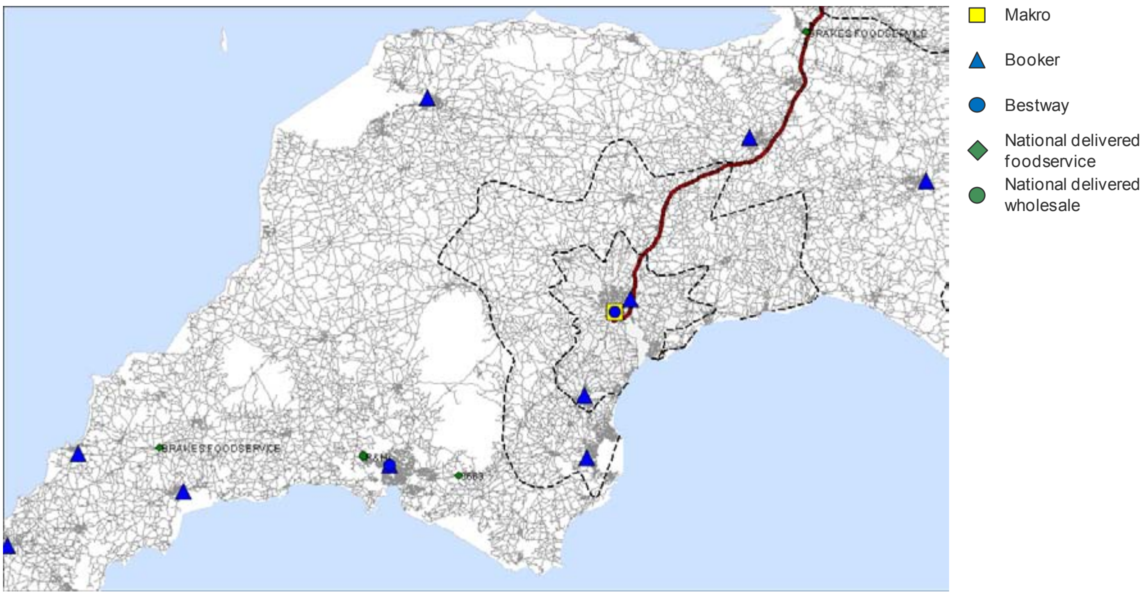
Exeter

18. Exeter is a small urban area located in south-west England with a population of 107,000 people.[7] Exeter has direct access to the M5 motorway. Exeter is not close to another significant competitive cash-and-carry market.

19. Two Booker stores are present within the 30-minute isochrone of the Makro store. One Booker store is located in Exeter and the other in Newton Abbot, a town to the south of Exeter. Bestway is the only additional fascia operating a cash-and-carry store in Exeter and is closest to the Makro store. Figure 4 shows Exeter and the location of different fascia types within 30-minute and 60-minute isochrones.

FIGURE 4

Other fascias within 30- and 60-minute isochrones in Exeter



Source: Parties' submissions, CC analysis.

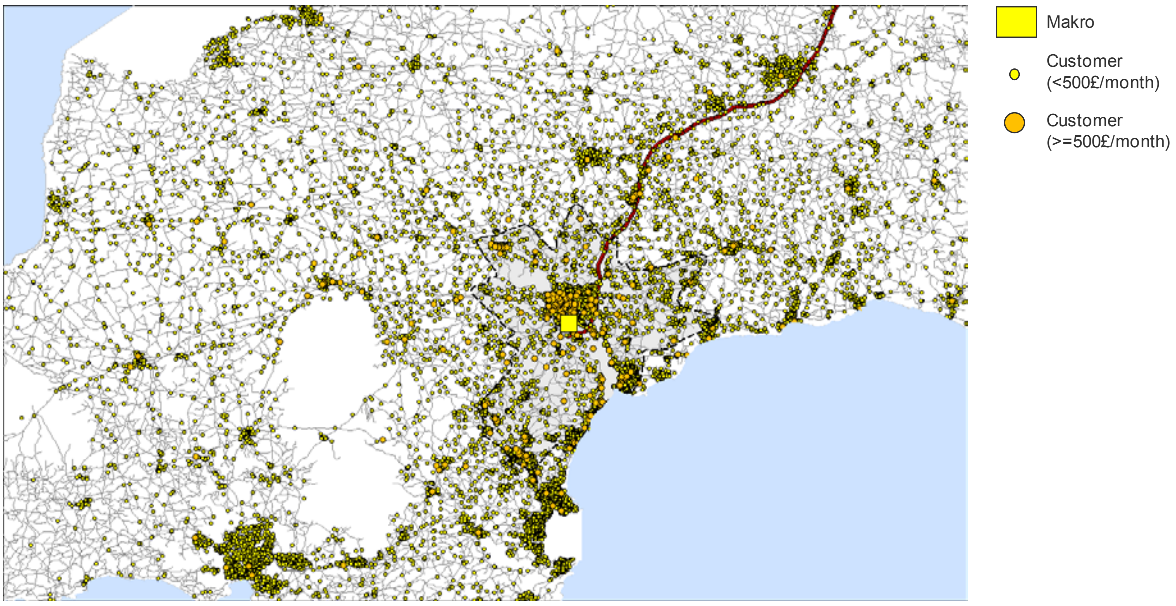
20. The merger reduces the number of national and large regional cash-and-carry fascias within a 30-minute drive-time of the Makro store from three to two.

[7] The population and the definition of urban areas are based on the 2001 Census by the ONS. We considered an urban area with a population level below 200,000 to be small, between 200,000 and 500,000 to be medium-sized and above 500,000 to be large.

21. Exeter has a significant proportion of customers travelling further than a drive-time of 30 minutes. Figure 5 shows the distribution of Makro customers within the 30-minute isochrone in Exeter.

FIGURE 5

Customer distribution in Exeter (30-minute isochrone)



Source: Parties' submissions, CC analysis.

22. No depots of national delivered operators are located within a drive-time of 60 minutes from the Makro store in Exeter. However, we know that delivery distances of national operators can exceed the 60-minute drive-time. Furthermore, Makro's customers are very dispersed in the local area. For example, as shown above, a significant number of customers travel from Plymouth where delivery depots are operated by 3663 and Palmer and Harvey. Brakes also operates from two depots further to the north and west of Exeter.

23. The survey results give an estimation of the parties' share of customers' total spend.[8] Survey results should be considered to be indicative, as they are based on a low number of responses. Booker tends to have a higher proportion of its customers' total spend than Makro does of Makro customers. For caterer customers, Booker's and Makro's shares of spend are low. Over half of Booker's catering customers spend less than [✂] per cent of their total spend with Booker and the same is true for over [✂] per cent of Makro's catering customers. Booker has a much higher share of its retailer customers' total spend, with nearly [✂] per cent of retailers sourcing over half of their supply from Booker. However, the data showed that all of Makro's retailer customers spend less than 10 per cent of their total spend with Makro.[9] Overall, the share of spend for the parties is low, consistent with there being other suppliers in the market from which customers source their products.

---

[8] Share of spend is the proportion of spending on supplies sourced from Booker or Makro.
[9] These results are based on a very low sample size. Number of responses is low for Booker (caterer (26), retailer (17) and whole sample (69)) and Makro (caterer (14), retailer (25) and whole sample (93)) in Exeter. 'Don't know' responses were not considered.

24. The diversion ratios from Booker to Makro range between [✂] and [✂] per cent for caterers, with unweighted diversion ratios being higher than those weighted by monthly spend. The diversion ratios are [✂] for retailers. Makro diversion ratios to Booker are higher, ranging between [✂] and [✂] per cent for caterer customers, with unweighted diversion ratios being lower than those weighted by monthly spend. Diversion ratios for Makro retailer customers range between [✂] and [✂] per cent with unweighted diversion ratios being lower than those weighted by monthly spend. These higher diversions may imply that Booker and Makro are close competitors. However, in this case it appears that Booker may be a more relevant alternative for Makro customers than the other way around.

25. GUPPI estimates have been calculated with unweighted and with monthly-spend weighted diversion ratios. In the case of Exeter, all GUPPI estimates are low.

26. The fascia count reduces from three to two in Exeter post-merger. However, a major national cash-and-carry (Bestway) remains in the market and is close to the Makro store in Exeter. The survey exhibits low to moderate shares of spend, consistent with there being other competitors in the market, and the GUPPI estimate was not concerning. There are three major delivered operators in the region, and evidence that the Makro customer base is widespread and not confined to Exeter.

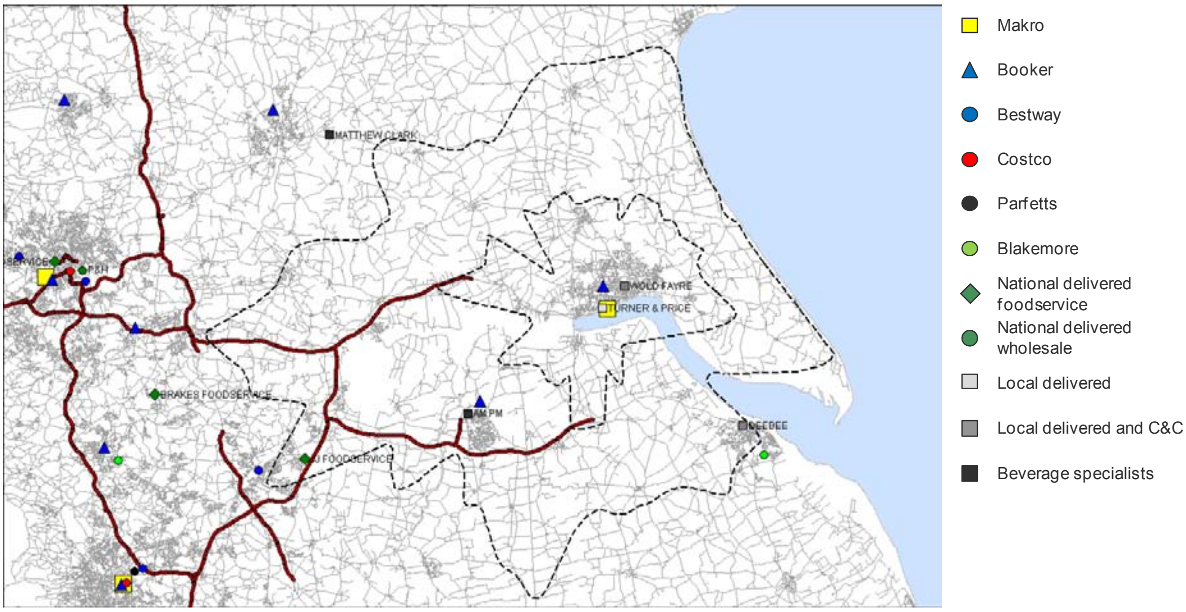
Hull

27. Kingston upon Hull (Hull) is a port city in Yorkshire and the Humber. The Hull urban area has a population of 301,000.

28. There is one Booker store within 30 minutes' drive-time of the Makro store in Hull and one additional local cash-and-carry (Wold Fayre, focusing on catering) is located in Hull. Figure 6 shows Hull and the location of different fascia types within 30-minute and 60-minute isochrones of the Makro store.

FIGURE 6

Other fascias within 30- and 60-minute isochrones in Hull



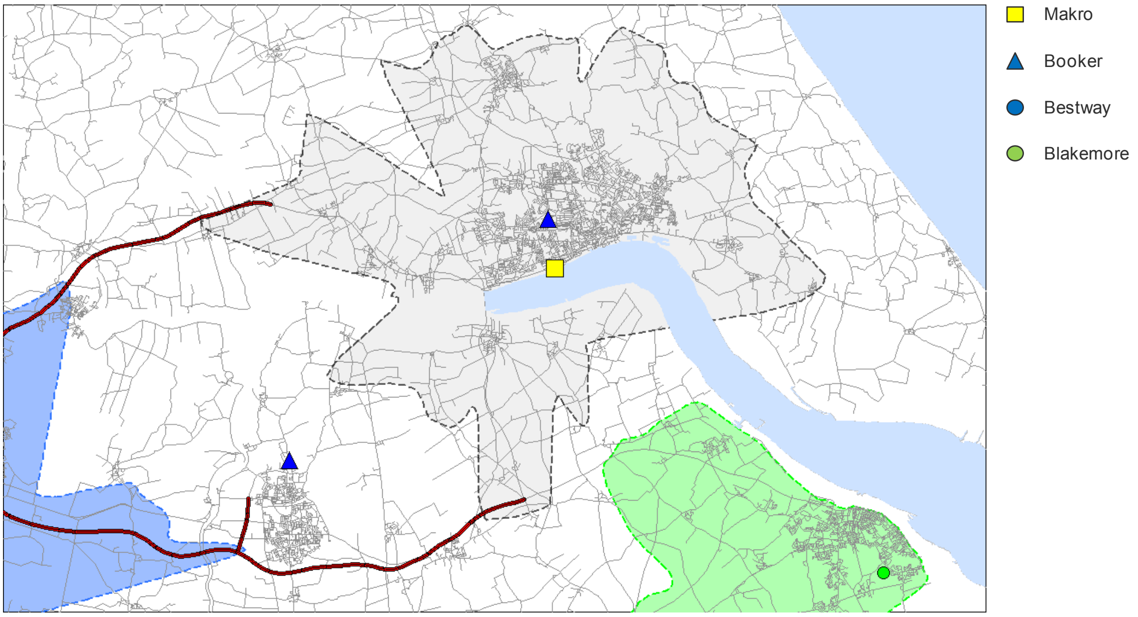
Source: Parties' submissions, CC analysis.

29. Within the 30-minute isochrone centred on the Makro store, the merger reduces the count of national and large regional fascias from two to one.

30. In the case of Hull, we noted that Bestway and Blakemore stores are located just outside the 60-minute isochrone. Figure 7 illustrates the 30-minute isochrones for each of the competitors.

FIGURE 7

Overlapping areas in Hull (30-minute isochrone)

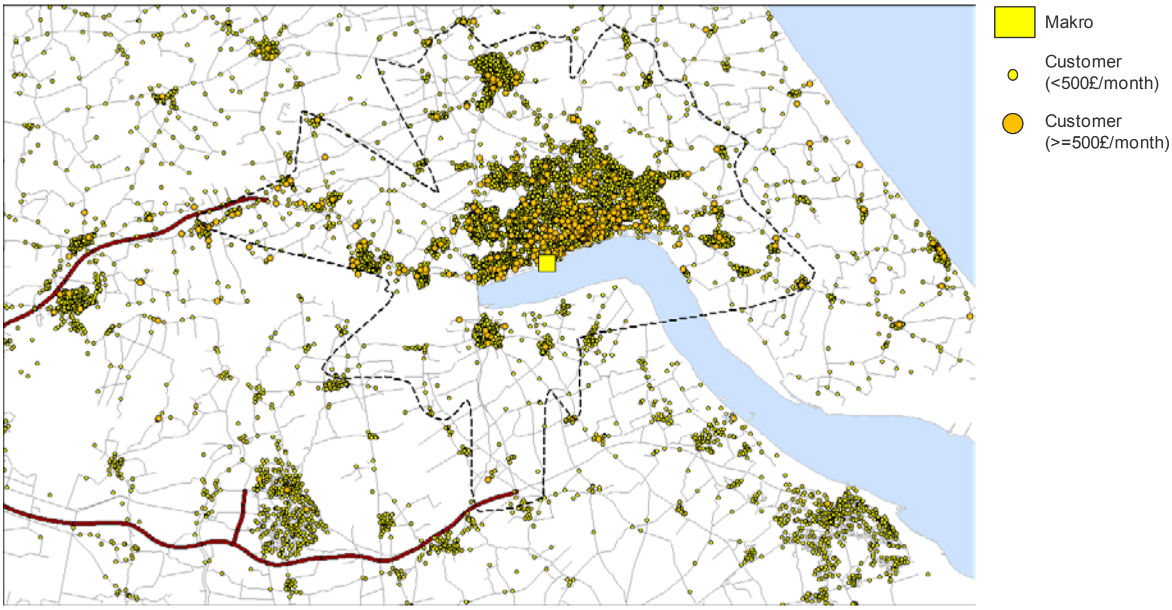


Source: Parties' submissions, CC analysis.

31. While the 30-minute isochrones between Makro and Blakemore/Bestway do not overlap, Figure 8 shows the distribution of Makro customers in the Hull area. This shows that there are groups of Makro customers in Scunthorpe and Grimsby and in between the isochrones to the west and south of Hull. As Blakemore is located in Grimsby, and Bestway is to the west of Scunthorpe, we believe that both operators offer a competitive alternative to Makro customers to the west and south of Hull.

FIGURE 8

Customer distribution in Hull (30-minute isochrone)



Source: Parties' submissions, CC analysis.

32. There is one national delivered operator depot located within a 60-minute isochrone of Makro's Hull store. This depot is located in Doncaster and belongs to JJ. We were told by JJ that deliveries to Hull came from its depot in Leeds and not the depot in Doncaster. JJ makes two drops per week in Hull.

33. Brakes told us that it delivered to Hull every day and Palmer and Harvey also said that it delivered to Hull. Hull is served by Brakes from a depot in Hemsworth (84 km) and by Palmer and Harvey from a depot in Leeds (100 km). We were told by Brakes that it had a sales volume of £[✂] million in Hull, which is larger than Makro's revenue from caterers in Hull of £[✂] million. Of Makro's retail revenue, [✂] per cent is attributable to tobacco. JJ sales volume in Hull is about £[✂] million.

34. There are also two local operators providing delivered and cash-and-carry services in Hull (Wold Fayre and Deebee). Wold Fayre is located in Hull and is foodservice focused, while Deebee is located in Grimsby. Deebee is a member of Today's buying group and is a large-scale supplier serving both the retail and catering segments. Deebee's UK turnover is £53 million,[10] indicating that it is a significant local competitor. In addition, one local delivered catering operator (Turner & Price) is located in Hull and one beverage specialist (AM PM) is located in Scunthorpe. All the local competitors are located within a 60-minute isochrone.

35. The survey results give an estimate of the parties' share of customers' total spend. The results show that Booker tends to have a higher share of its customers' overall spend than Makro does of its customers. Catering customers tend to have a lower share of spend with Booker than retailer customers, with [✂] per cent of caterers spending less than [✂] per cent with Booker compared with [✂] per cent of Booker retailer customers sourcing over [✂] per cent of their supply from Booker. Makro has a similar relationship with its catering customers, with [✂] per cent sourcing less than [✂] per cent of their supply from Makro. [✂] per cent of Makro's retailer customers

[10] This figure is taken from the latest company accounts.

said that they spent less than [✂] per cent of their spend with Makro.[11] Apart from Booker's retail customers, the parties have a relatively low to moderate level of customers' share of spend, implying that customers have other alternative sources for their products in Hull.

36. Diversion ratios from Booker to Makro range between [✂] and [✂] per cent for catering customers and [✂] to [✂] per cent for retail customers. Unweighted diversion ratios are higher than those weighted by monthly spend for caterers and lower for retailers. Makro's diversion ratios are significantly higher and range between [✂] and [✂] per cent for caterer customers and [✂] to [✂] per cent for retailer customers. In both cases, unweighted diversion ratios are lower than those weighted by monthly spend.

37. GUPPIs have been calculated with unweighted and with monthly-spend weighted diversion ratios. These indicators in Hull are higher for Makro retailer customers if they are calculated with weighted diversion ratios, ranging between [✂] and [✂] per cent. For Makro caterer customers and for all Booker customers GUPPIs are low.

38. In Hull, the number of national and large regional cash-and-carry operators reduces from two to one post-merger. However, the analysis of the customer distribution in the local area implies that two additional national cash-and-carry operators will provide a competitive alternative for customers located to the west and south of Hull. We also found that there was competition from national and local delivered operators (Wold Fayre and DeeBee). The parties' share of spend is low to moderate.

Ipswich

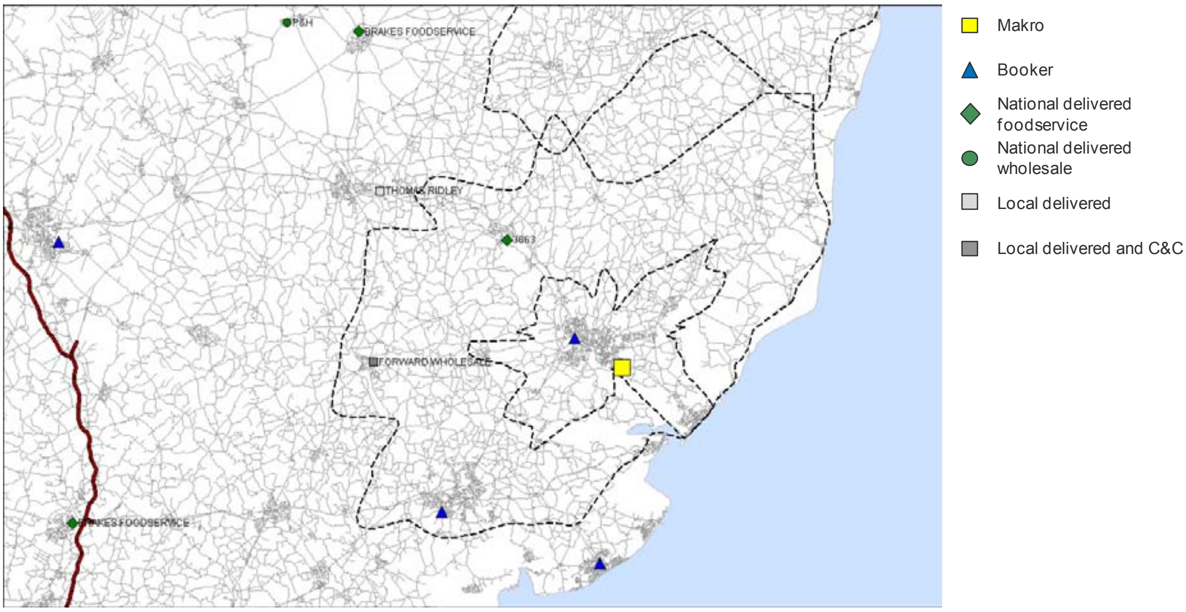
39. The Ipswich urban area is located in the East of England. It has a population of 142,000.

40. There is one Booker store within 30 minutes' drive-time of the Makro store. Makro is located to the south-east and Booker to the west of Ipswich. No cash-and-carry operators other than the merger parties are present within the 30-minute isochrone of the Makro store. Figure 9 shows Ipswich and the location of different fascia types within 30-minute and 60-minute isochrones.

[11] These results are based on a very low sample size. Number of responses is low for Booker (caterer (21), retailer (25) and whole sample (75)) and Makro (caterer (23), retailer (34) and whole sample (94)) in Hull. 'Don't know' responses were not considered.

FIGURE 9

Other fascias within 30- and 60-minute isochrones in Ipswich



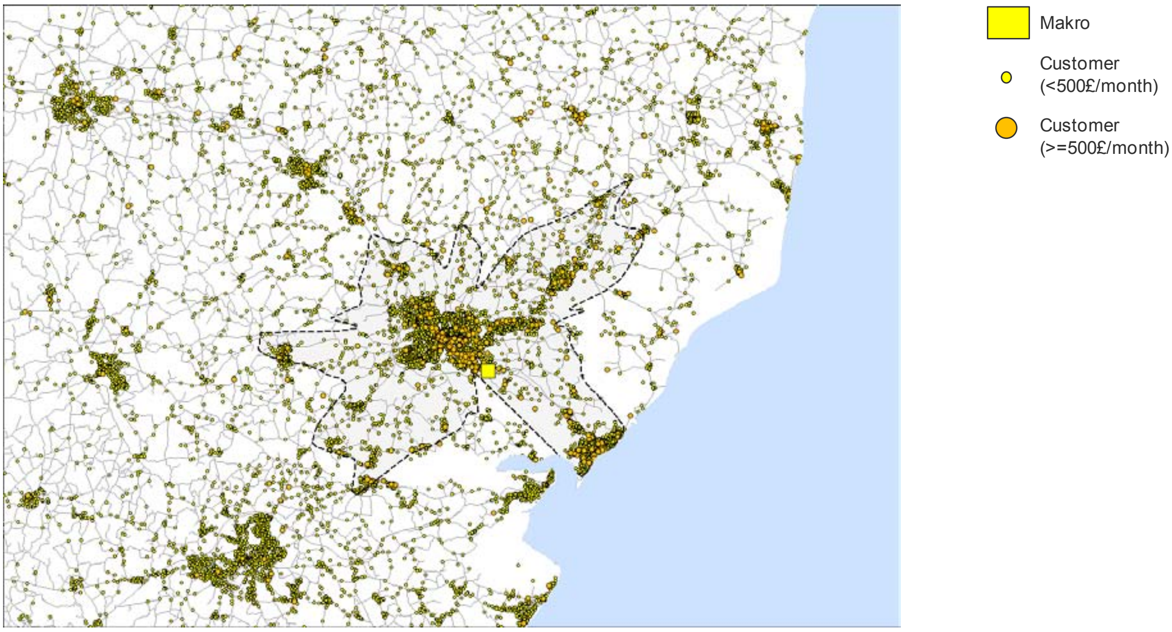
Source: Parties’ submissions, CC analysis.

41. Within the 30-minute isochrone of the Makro store in Ipswich, the number of national and large regional cash-and-carry fascias reduces from two to one as a result of the merger.

42. A significant proportion of customers in Ipswich travel further than a drive-time of 30 minutes. Figure 10 shows the distribution of Makro customers around Ipswich.

FIGURE 10

Customer distribution in Ipswich (30-minute isochrone)



Source: Parties’ submissions, CC analysis.

43. One national delivered operator has a depot located within a 60-minute isochrone of the Makro store in Ipswich. This depot belongs to 3663. However, Brakes, JJ and Palmer and Harvey all stated that they could and did deliver to Ipswich and nearby coastal towns. Brakes told us that it delivered to Ipswich every day and JJ told us that it made two drops per week. Ipswich is served by Brakes from a depot in Thetford (55 km), by JJ from a depot in Enfield (119 km) and by Palmer and Harvey from a depot in Brandon (68 km)—see Figure 9.

44. The delivered wholesalers conduct a significant amount of business in Ipswich. In 2012, Brakes told us that its net sales, which were primarily to caterers, were around £[✂] million in Ipswich and surrounding areas. This is [✂] per cent more than local Makro sales to catering and retail customers in 2011. JJ told us that its sales volume in Ipswich was about £[✂] million.

45. We identified one local operator, Forward Wholesale, providing both cash-and-carry and delivery services. Forward Wholesale is located at Sudbury within 60 minutes' drive-time of the Makro store in Ipswich and is a member of the Today's buying group.[12] We note that Makro's customers using its Ipswich store come from a wide catchment with a significant number being located in Bury St Edmunds (to the north of Sudbury) and Colchester (to the south), locations that are a similar distance or closer to Sudbury than to Ipswich.

46. In addition, a local delivered foodservice operator is located outside the 60-minute isochrone (Thomas Ridley). Although we considered a drive-time of 60 minutes to be a useful benchmark for delivered operators, we are aware that some operators travel further than this. We identified an additional delivered foodservice operator based in Norwich that told us it would supply to Ipswich (Anglia Culinary Suppliers).[13]

47. The survey results give an estimate of customers' share of spend with the parties. Booker tends to have a higher share of its customers' total spend than Makro does of its customers'. [✂] per cent of Booker's caterer customers and [✂] per cent of Makro's caterer customers spend less than [✂] per cent with the respective parties. In retail, Booker has a higher share of spend than Makro, with [✂] per cent of its customers sourcing over [✂] per cent per cent of their supply from Booker. [✂] per cent of Makro's retail customers, on the other hand, source less than [✂] per cent of their supply from Makro.[14] Aside from Booker's retail customers, the share of spend for the parties was considered to be low to moderate. This is consistent with the parties' customers using a number of other suppliers in the market.

48. Dependent on customer group and weighting, the diversion ratios for Booker's caterer customers range between [✂] and [✂] per cent with unweighted diversion ratios being higher than those weighted by monthly spend. The Booker retailer customer segment exhibits lower diversion ratios ranging between [✂] and [✂] per cent with unweighted diversion ratios being higher than those weighted by monthly spend. Makro's diversion ratios are higher and range between [✂] and [✂] per cent for caterers and [✂] to [✂] per cent for retailers. Caterers' unweighted diversion ratios are higher than those weighted by monthly spend and vice versa for retailers. The high levels of diversion are likely to imply that Makro customers see Booker as a close alternative in retail and catering.

[12] Forward Wholesale also has operations in Norwich, with a depot around 85 km from the Ipswich Makro store.
[13] www.acsnorwich.com/.
[14] These results are based on a very low sample size. Number of responses is low for Booker (caterer (31), retailer (30) and whole sample (78)) and Makro (caterer (23), retailer (31) and whole sample (92)) in Ipswich. 'Don't know' responses were not considered.

49. GUPPIs have been calculated with unweighted and with monthly-spend weighted diversion ratios. In the case of Ipswich, these price indicators seem to be moderate for Makro retailers, ranging between [✂] and [✂] per cent. For all other customers the GUPPIs are low.

50. In Ipswich, the fascia count of national and large regional cash-and-carry operators reduces from two to one post-merger. However, we found that there was competition from delivered operators and three local competitors, including a cash-and-carry competitor (Forward Wholesale) that is located favourably for Makro customers coming from the west of Ipswich. Except for Booker's retailer customers, the parties' share of spend is low to moderate, implying that the parties' customers are purchasing from other sources of supply. Finally, we note that in retail (where a cash-and-carry presence is more important than in catering), Makro's sales to retailers in Ipswich were small (about £[✂] million—just over [✂] per cent of Booker's retail sales), and that the survey indicated that [✂] per cent of retailers spend less than [✂] per cent of their overall spend with Makro.

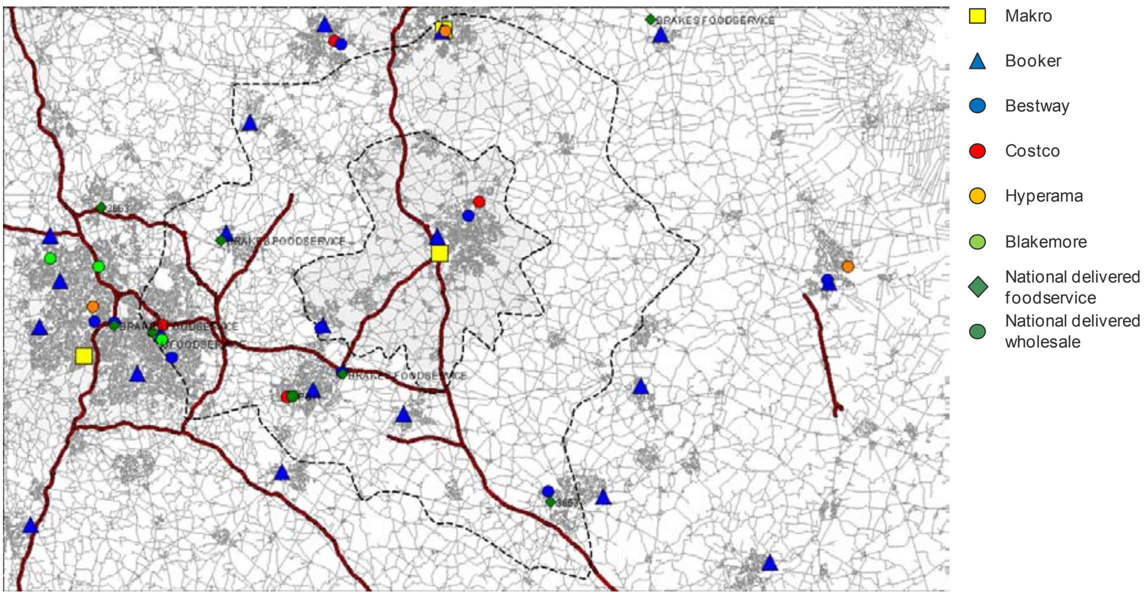
Leicester

51. Leicester is located in the East Midlands, has a population of 441,000 and is considered to be medium-sized. Leicester has good transport links, being located close to the M1 motorway. It is also near to Nottingham (45 km) and Birmingham (69 km).

52. There is one Booker store located within 30 minutes' drive-time of the Makro store in Leicester. In addition to Makro and Booker, we identified two other national cash-and-carry operators located within the 30-minute isochrone: Bestway and Costco. Booker and Makro are located in the south-west of Leicester and the other fascias are located to the north-east. Figure 11 shows Leicester and the location of different fascia types within 30-minute and 60-minute isochrones.

FIGURE 11

Other fascias within 30- and 60-minute isochrones in Leicester

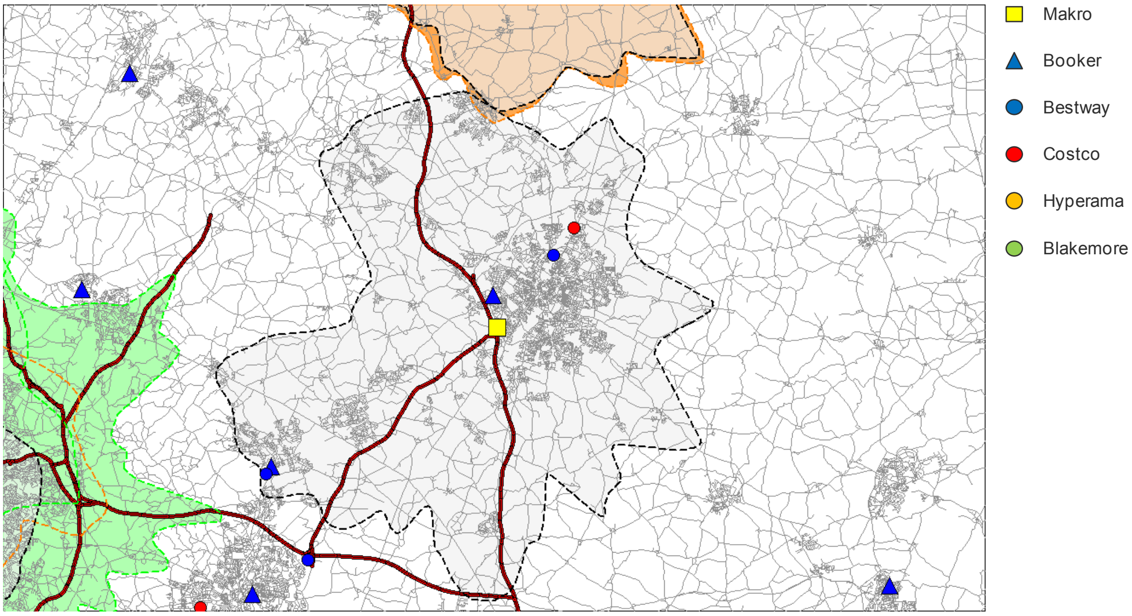


Source: Parties' submissions, CC analysis.

53. Within the 30-minute isochrone for Makro, the number of national and large regional cash-and-carry fascias reduces from four to three. However, there is also overlap from Hyperama in the north, and Blakemore is located slightly outside the 60-minute isochrone. Figure 12 illustrates the overlap areas.

FIGURE 12

Overlapping areas in Leicester (30-minute isochrone)

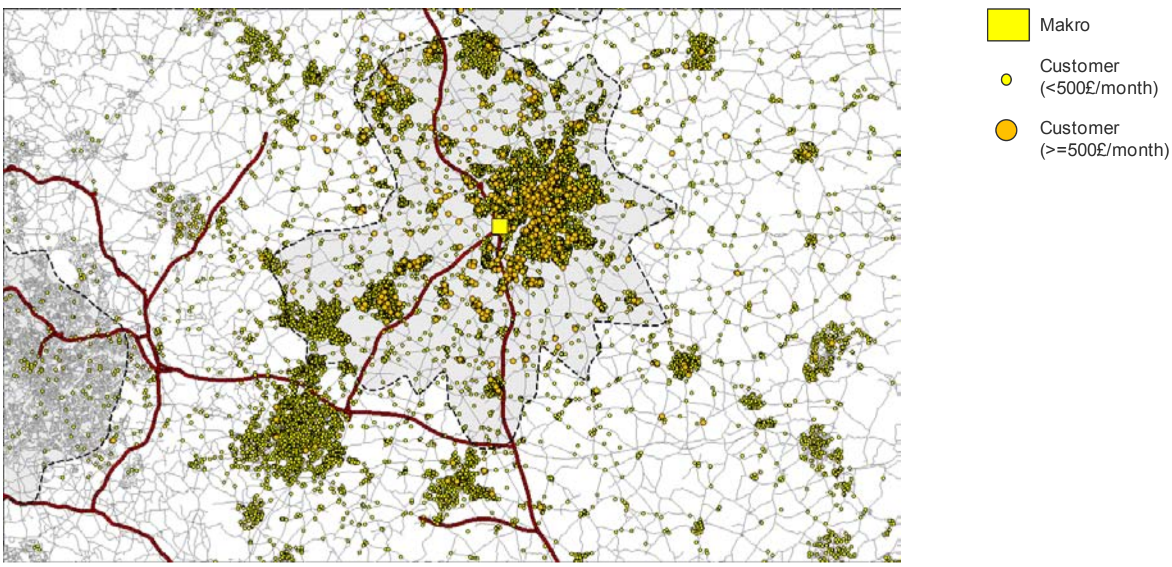


Source: Parties' submissions, CC analysis.

54. Figure 13 shows that Makro has a proportion of customers in Leicester that travel further than 30 minutes.

FIGURE 13

Customer distribution in Leicester (30-minute isochrone)



Source: Parties' submissions, CC analysis.

55. Four major national delivered operators have depots within a drive-time of 60 minutes from the Makro store in Leicester. These are 3663, Brakes, JJ and Palmer and Harvey. We found that in general, delivered operators may be effective alternatives to cash-and-carry operators. The presence of the depots of four national operators within 60 minutes' drive-time suggests that the same may apply on a local level in Leicester—see Figure 11.

56. The survey results give an estimation of customers' share of spend with the parties. Both parties have a low share of spend for caterer customers, with [✂] per cent of Booker's caterer customers and [✂] per cent of Makro's spending less than [✂] per cent of their total spend with the respective party. The parties' shares of spend for retailer customers are also low, although Makro's are considerably lower than Booker's. [✂] per cent of Makro's retailer customers spend less than [✂] per cent of their total spend with Makro, compared with [✂] per cent of Booker's retailer customers spending this amount with Booker.[15] Overall, the parties' shares of spend for customers is low. This is consistent with the parties' customers using a number of other suppliers in the Leicester area to source their supply.

57. Diversion ratios from Booker to Makro for caterers range between [✂] and [✂] per cent and for retailers are below [✂] per cent. Makro to Booker diversion ratios range between [✂] and [✂] per cent for catering customers and between [✂] and [✂] per cent for retail customers. In both cases, unweighted diversion ratios are lower than those weighted by monthly spend. In this case, it appears that Booker is a closer substitute for Makro customers than the other way around, although Makro's share of spend is low.

58. Price indicators have been calculated using unweighted and monthly spend weighted diversion ratios. Price indicators are moderate for both Booker and Makro caterer customers, with GUPPIs ranging between [✂] and [✂] per cent for Booker and between [✂] and [✂] per cent for Makro. GUPPIs were low for retail customers.

59. To summarize, the number of national and large regional cash-and-carry operators reduces from four to three post-merger. Potentially, one additional large regional cash-and-carry operator (Hyperama) is relevant for Leicester and another (Blakemore) is located slightly outside the 60-minute isochrone. The presence of depots of four national delivered operators suggests potential competitive constraints from delivered operators. The survey shows low shares of spend for the parties, implying that there are likely to be other suppliers in the market. The diversion ratios and price pressure indices were higher for catering customers. However, based on the number of cash-and-carry and delivered operators in the market, coupled with low shares of spend and the evidence of caterers multi-sourcing discussed in Appendices D and F, we do not place undue weight on these results.

Norwich

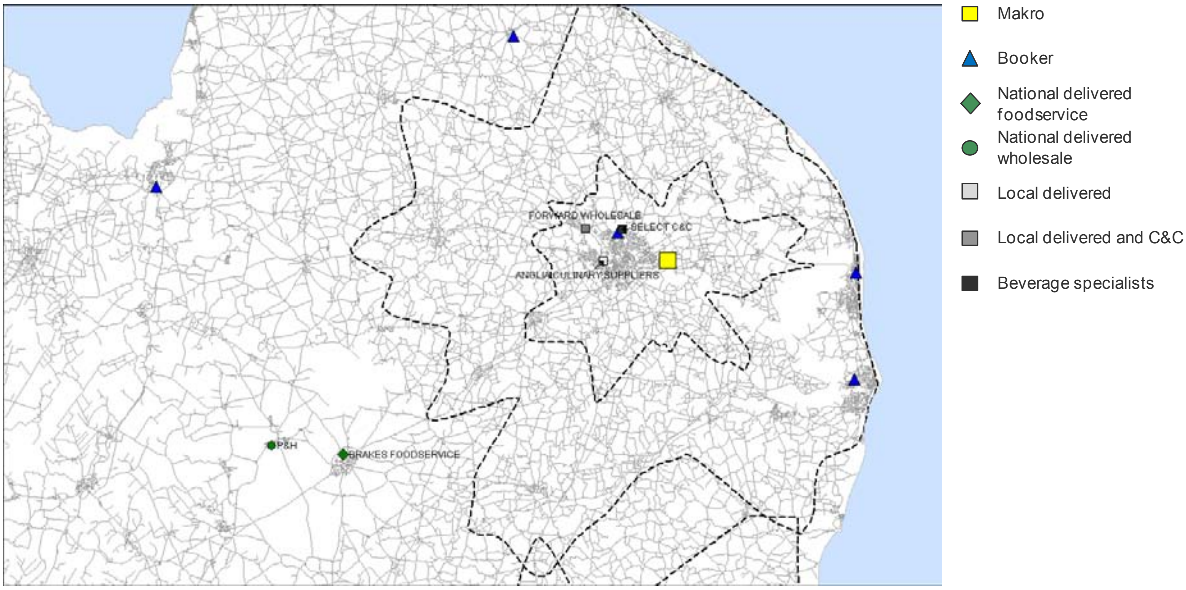
60. The Norwich urban area is located in the East of England, with a population of 195,000. However, it has a large surrounding area of small towns (for example, Dereham) and coastal resorts (for example, Great Yarmouth) that are not included in this figure.

[15] These results are based on a low sample size. The number of responses is low for Booker (caterer (27), retailer (9) and whole sample (56)) and Makro (caterer (17), retailer (33) and whole sample (96)) in Leicester. 'Don't know' responses were not considered.

61. One Booker store can be identified within 30 minutes' drive-time of the Makro store. Makro is located to the east and Booker to the north of Norwich. No national cash-and-carry operators other than the parties involved in the merger are based in Norwich. Figure 14 shows Norwich and the location of different fascia types within 30-minute and 60-minute isochrones.

FIGURE 14

Other fascias within 30- and 60-minute isochrones in Norwich



Source: Parties' submissions, CC analysis.

62. Within the 30-minute isochrone for the Makro store in Norwich, the number of national and large regional cash-and-carry fascias reduces from two to one as a result of the merger.

63. A significant number of Makro customers travel further than a drive-time of 30 minutes to its Norwich store. Figure 15 shows the distribution of Makro customers within a 30-minute isochrone of its Norwich store.

FIGURE 15

Customer distribution in Norwich (30-minute isochrone)

Source: Parties' submissions, CC analysis.

64. Figure 15 illustrates that there are a considerable number of customers travelling from outside the 30-minute isochrone to Makro. These include customers travelling from Great Yarmouth and Lowestoft to the east of Norwich, and Thetford and Swaffam to the west.

65. The national delivered operators are not located within a 60-minute isochrone around Norwich. However, Brakes, Palmer and Harvey and JJ all told us that they delivered to Norwich and all coastal towns in the East of England. Brakes delivers to Norwich from a depot in Thetford (48 km) every day and JJ makes two drops a week from a depot in Enfield (171 km). Palmer and Harvey delivers to Norwich from a depot in Brandon (60 km)—see Figure 14.

66. The national delivered operators' sales volume is significant. In 2012, Brakes' net sales, which are predominantly to caterers, were around £[✄] million in Norwich and surrounding areas. This is [✄] per cent higher than local Makro sales to caterers in 2011. JJ's sales volume in Norwich is about £[✄] million—see Figure 14.

67. We identified one operator (Forward Wholesale) providing both delivered and cash-and-carry services at the local level. Forward Wholesale is located within 30 minutes' drive-time of the Makro store in Norwich and is a member of the Today's buying group. In addition, we identified a local delivered operator within the 30-minute isochrone (Anglia Culinary Suppliers) and a beverage specialist (Select C&C).

68. The survey results give an estimation of customers' share of spend spent with the parties. Booker tends to have a higher share of its customers' total spend than Makro does of its customers'. Around half of Booker's caterer and retailer customers spend less than [✄] per cent of their total spend with Booker. For Makro, around [✄] per cent of caterers spend less than [✄] per cent of their total spend with Makro, and

[✂] per cent of retailers spend less than [✂] per cent.[16] Overall, the share of spend is low for both customer groups at both Booker and Makro. This low level of spend share is consistent with the parties’ customers in Norwich using other alternative suppliers.

69. The diversion ratios for Booker range between [✂] and [✂] per cent for caterer customers and between [✂] and [✂] per cent for retailers. In both cases, unweighted diversion ratios are lower than those weighted by monthly spend. For Makro, the diversion ratios are higher and range between [✂] and [✂] per cent for catering customers and between [✂] and [✂] per cent for retail customers. In the case of caterers, unweighted diversion ratios are higher than those weighted by monthly spend, and in the case of retailers lower. This high diversion might imply that Booker and Makro are close competitors and that the number of alternative fascias is limited in the market. It also suggests that Makro customers view Booker as a closer alternative source of supply than Booker customers view Makro.

70. GUPPIs have been calculated with unweighted and with monthly spend weighted diversion ratios. In Norwich, these price indicators are low for Booker. For Makro, the GUPPIs range between [✂] and [✂] per cent for caterers and [✂] to [✂] for retailers.

71. The fascia count of national and large regional cash-and-carry operators reduces from two to one post-merger in Norwich. However, we found that there was competition from delivered operators (notably Brakes, which has considerable revenue from caterers in the Norwich area) and three local competitors, including Forward Wholesale. We also note that in retailing, Makro’s sales to retailers are around [✂] per cent of Booker’s sales to retailers. The parties’ share of spend is low, implying that there may be other competitors in the market.

Poole

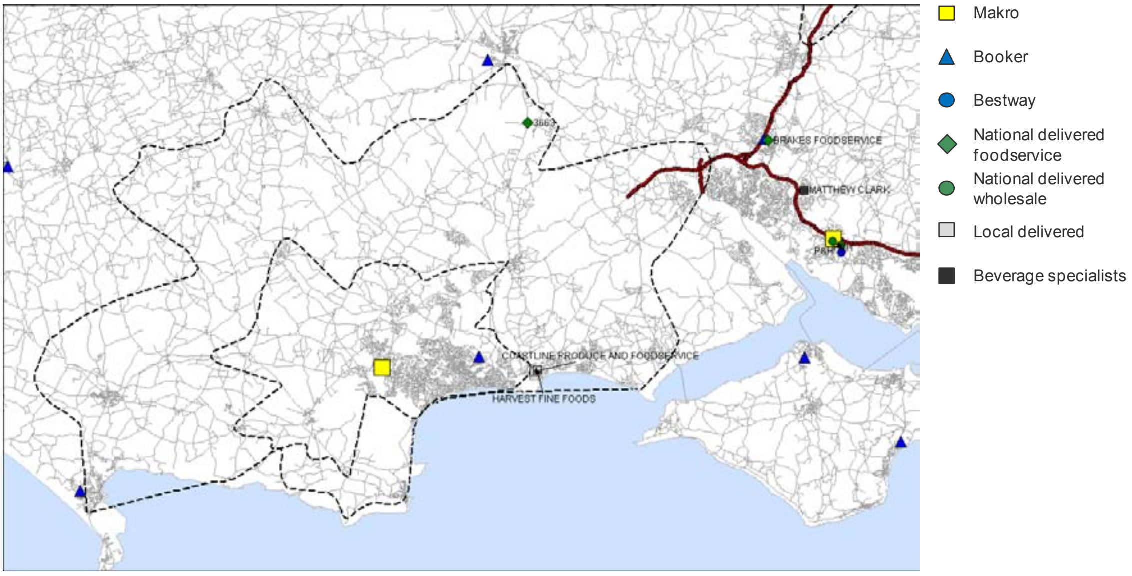
72. Poole is part of the Bournemouth urban area located in south-west England. The Bournemouth urban area has a population of 384,000 and has access to the M27 motorway through the A31 (about 40 km).

73. Makro is located in the west of Poole. One Booker store can be identified within 30 minutes’ drive-time of the Makro store. The Booker store is situated to the east of Poole. No national or large regional cash-and-carry fascias other than the parties involved in the merger can be identified in the 30-minute isochrone. Figure 16 shows Poole and the location of different fascia types within 30-minute and 60-minute isochrones of the Makro store.

[16] These results are based on a very low sample size. Number of responses is low for Booker (caterer (34), retailer (32) and whole sample (85)) and Makro (caterer (24), retailer (31) and whole sample (93)) in Norwich. ‘Don’t know’ responses were not considered.

FIGURE 16

Other fascias within 30- and 60-minute isochrones in Poole



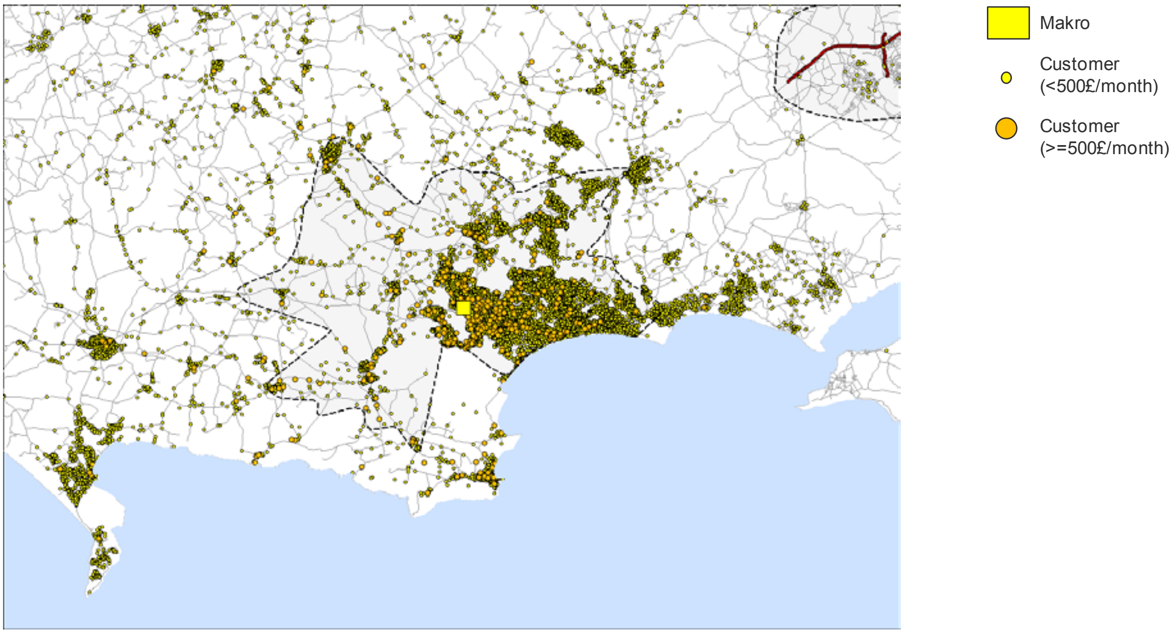
Source: Parties' submissions, CC analysis.

74. Within the 30-minute isochrone for the Makro store in Poole, the number of national and large regional cash-and-carry fascias reduces from two to one as a result of the merger.

75. A number of customers travel a greater distance than a 30-minute drive-time to the Makro store. These include customers in Weymouth and Christchurch. The majority of Makro's customers in Poole are located east of the Makro store in Bournemouth. At this stage, no additional national or regional cash-and-carry operator can be considered as relevant due to the location of customers. However, Costco is planning to open a store in Southampton in mid-2013, around 50 km to the east of the Makro store. Due to the location of the majority of Makro's customers (which are to the east), the new Costco store may provide a future competitive constraint for its Poole store. Figure 17 shows the actual distribution of Makro customers within the 30-minute isochrone in Poole.

FIGURE 17

Customer distribution in Poole (30-minute isochrone)



Source: Parties' submissions, CC analysis.

76. One depot of a national delivered operator is located within a 60-minute isochrone in the case of Poole. This depot belongs to 3663. However, Brakes, Palmer and Harvey and JJ all stated that they also delivered to Poole. Poole is served by Brakes three times a week, on a Monday, Wednesday and Friday. JJ makes two drops a week in Poole. Poole is served by Brakes 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)—see Figure 16.

77. Brakes' sales volume in Poole is £[✂] million, slightly smaller than Makro's revenue which is £[✂] million for catering customers. JJ's sales volume in Poole is around £[✂] million. However, Brakes and JJ are only two of four national delivered operators that operate in the area—see Figure 16.

78. We also identified two local operators providing a delivered service (Coastline Produce and Foodservice and Harvest Fine Foods). Both are located just outside the 30-minute isochrone.

79. The survey results estimate customers' share of spend spent with the parties. The results imply that Booker has a higher proportion of its customers' share of spend than Makro does of its customers'. Around [✂] per cent of Booker's retail and catering customers spend less than [✂] per cent of their total spend with Booker. This is much lower for Makro's customers, with around [✂] per cent of caterer customers and [✂] per cent of retailer customers spending less than [✂] per cent of their spend with Makro. Around [✂] per cent of retailers spend less than 10 per cent of their total spend with Makro.[17] The share of spend is moderate for Booker and low

[17] These results are based on a very low sample size. Number of responses is low for Booker (caterer (34), retailer (29) and whole sample (78)) and Makro (caterer (23), retailer (32) and whole sample (97)) in Poole. 'Don't know' responses were not considered.

for Makro, and overall implies that there may be a number of other suppliers used by the parties' customers in Poole.

80. Dependent on customer group and weighting, the diversion ratios for Booker range between [✂] and [✂] per cent for catering customers and between [✂] and [✂] per cent for retail customers. Makro's diversion ratios range between [✂] and [✂] per cent for caterers and between [✂] and [✂] per cent for retailers. In both cases, the unweighted diversion ratios are lower than those weighted by monthly spend. These diversion ratios may imply that Booker and Makro are close competitors and that the number of alternative fascias is limited in the market. They also suggest that Booker may be a stronger constraint on Makro than the other way around.

81. GUPPIs have been calculated with unweighted and with monthly spend weighted diversion ratios. These are low for Booker in Poole for both customer groups, and for Makro's catering customers. For Makro's retail customers the GUPPIs range between [✂] and [✂] per cent.

82. The count of national and large regional cash-and-carry operators reduces from two to one post-merger. There is a competitive constraint on the parties from some national delivered operators, and we identified two local competitors also offering delivered services. Palmer and Harvey delivers to the area and there is a constraint from symbol group operators such as Nisa. The survey exhibits low to moderate shares of spend, implying that the parties' customers are likely to be using other competitors operating in the area. Diversion ratios are notable for Booker's retail customers and for both of Makro's customer groups. However, this was balanced by GUPPIs that were only moderate for Makro retail customers.

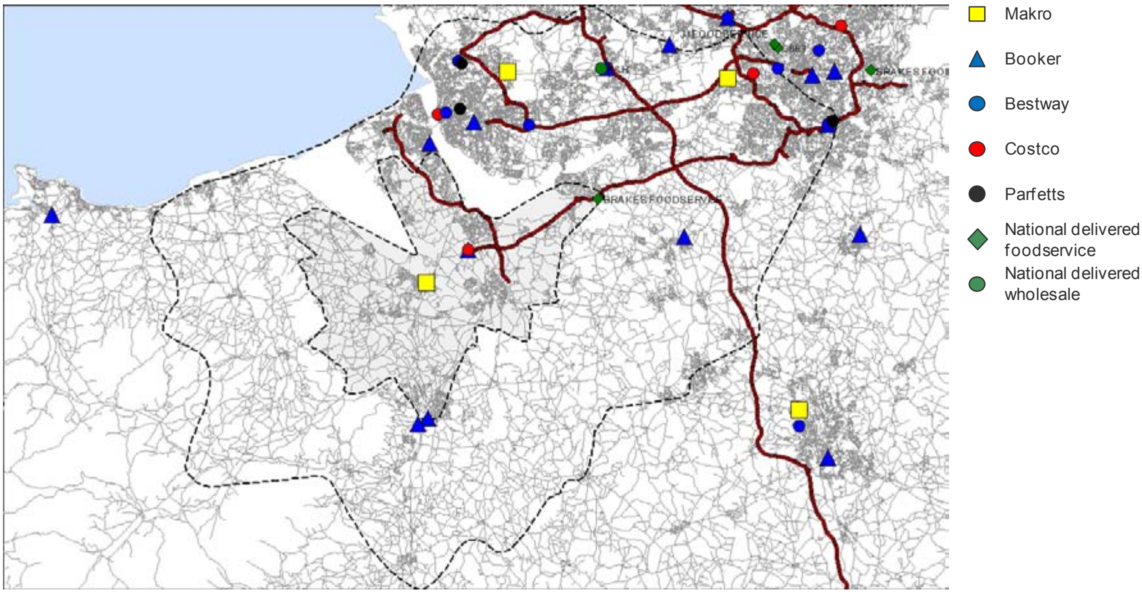
Queensferry

83. The Queensferry Makro store is located in Deeside (Wales), around 13 km to the west of Chester (England) and 27 km north of Wrexham (Wales). Chester has a population of around 91,000 and Wrexham has a population of around 63,000. The Queensferry Makro store is also located close to Liverpool (approximately 42 km to the north).

84. Two Booker stores can be identified within the 30-minute isochrone of the Makro store, one to the north and one to the south. There is also a Costco located to the north of the Makro store. Figure 18 shows Queensferry and the location of different fascia types within 30-minute and 60-minute isochrones.

FIGURE 18

Other fascias within 30- and 60-minute isochrones in Queensferry

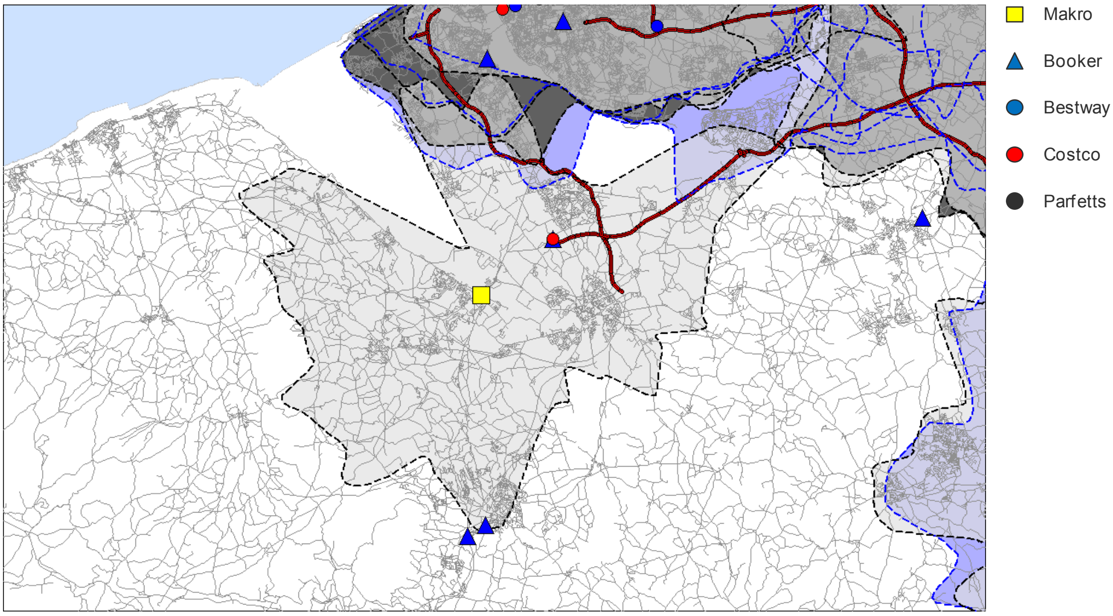


Source: Parties' submissions, CC analysis.

85. Within the 30-minute isochrone for the Makro store, the number of national and large regional cash-and-carry fascias would reduce from three to two post-merger. Bestway and Parfetts, both in Liverpool, have 30-minute isochrones that overlap with the Queensferry Makro store. Figure 19 illustrates the overlap areas.

FIGURE 19

Overlapping areas in Queensferry (30-minute isochrone)



Source: Parties' submissions, CC analysis.

86. A review of customer distributions in the local area is presented below. Figure 20 shows that there are a substantial number of customers based north of the Makro store, with a high proportion located in areas within the Bestway and Parfetts isochrones. Therefore, we considered Bestway and Parfetts to be relevant competitors in this local market.

FIGURE 20

Customer distribution in Queensferry (30-minute isochrone)

Source: Parties' submissions, CC analysis.

87. Two major national delivered operators—Brakes and Palmer and Harvey—have depots within a drive-time of 60 minutes from the Makro store in Queensferry. In addition, two other national delivered operators—3663 and JJ—have depots just outside the 60-minute isochrone from the Makro store in Queensferry—see Figure 19.

88. The survey results estimate the parties' share of customers' total spend. Booker tends to have a higher share of its customers' spend than Makro does of Makro customers'. Around [✂] per cent of Makro and Booker catering customers spend less than [✂] per cent of their total spend with the respective parties. [✂] per cent of Booker retailers spend less than [✂] per cent with Booker. This is much higher for Makro, with [✂] per cent of its retailer customers spending less than [✂] per cent of their total spend with Makro.[18] Overall, the parties' share of spend was considered to be low for retailers and low to moderate for caterers.

89. The diversion ratios from Booker to Makro are below [✂] per cent and therefore considered to be low. Makro's diversion ratios are higher than Booker's and range between [✂] and [✂] per cent for caterer customers and between [✂] and [✂] per cent for retailer customers. In both cases, the unweighted diversion ratios are lower than those weighted by monthly spend. This may imply that Booker is a stronger competitor for Makro's retailer customers in Queensferry than its catering customers.

[18] These results are based on a low sample size. Number of responses is low for Booker (caterer (28), retailer (18) and whole sample (64)) and Makro (caterer (17), retailer (30) and whole sample (89)) in Queensferry. 'Don't know' responses were not considered.

However, we note that Makro has a relatively low share of spend for its retail customers.

90. Caterer GUPPIs for Makro ranged between [✂] and [✂] per cent, and retailer GUPPIs ranged between [✂] and [✂] per cent. GUPPIs for both customer groups for Booker were low.

91. The count of national and large regional cash-and-carry fascias reduces from three to two post-merger. However, two relevant competitors were identified slightly outside this isochrone. Furthermore, we found that there was competition from up to four national delivered operators. The survey exhibits low to moderate shares of spend, implying that there are other suppliers used by the parties' customers. There is a slight concern for Makro's retail customers. However, we recognized that these make up a small amount of Makro's revenue in Queensferry.

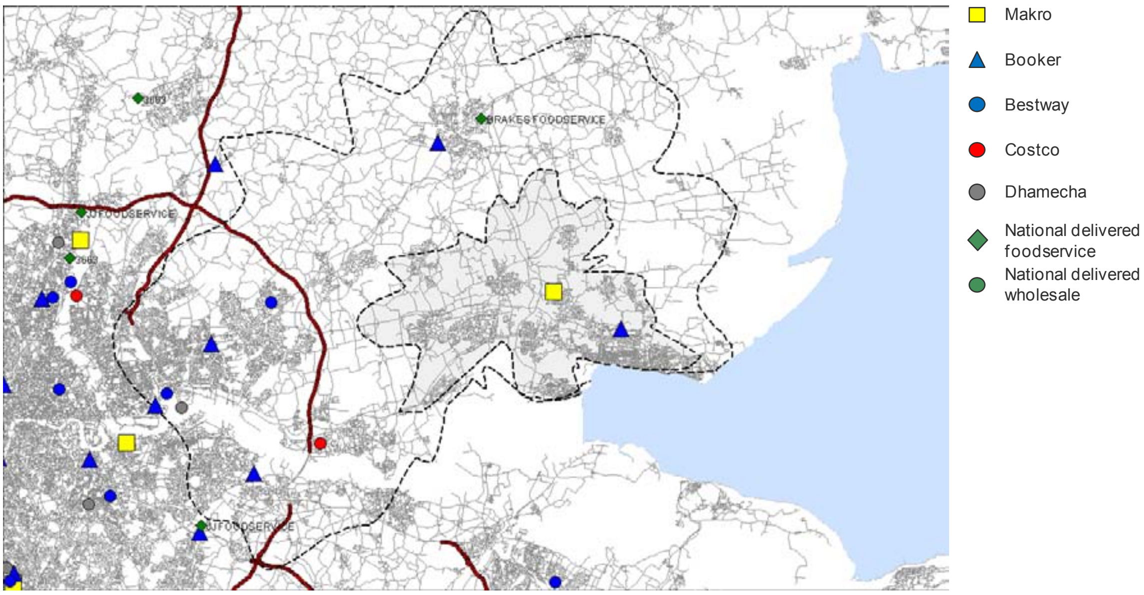
Rayleigh

92. Rayleigh is part of the Southend urban area located in the East of England, which has a population of around 269,000. Rayleigh is located to the east of London (approximately 63 km).

93. Makro has a store located to the north of Rayleigh. One Booker store can be identified within 30 minutes' drive-time of the Makro store, to the east of Rayleigh and close to Southend. No national or large regional cash-and-carry fascias other than the parties involved in the merger can be identified within the 30-minute isochrone of the Makro store. Figure 21 shows Rayleigh and the location of different fascia types within 30-minute and 60-minute isochrones of the Makro store.

FIGURE 21

Other fascias within 30- and 60-minute isochrones in Rayleigh



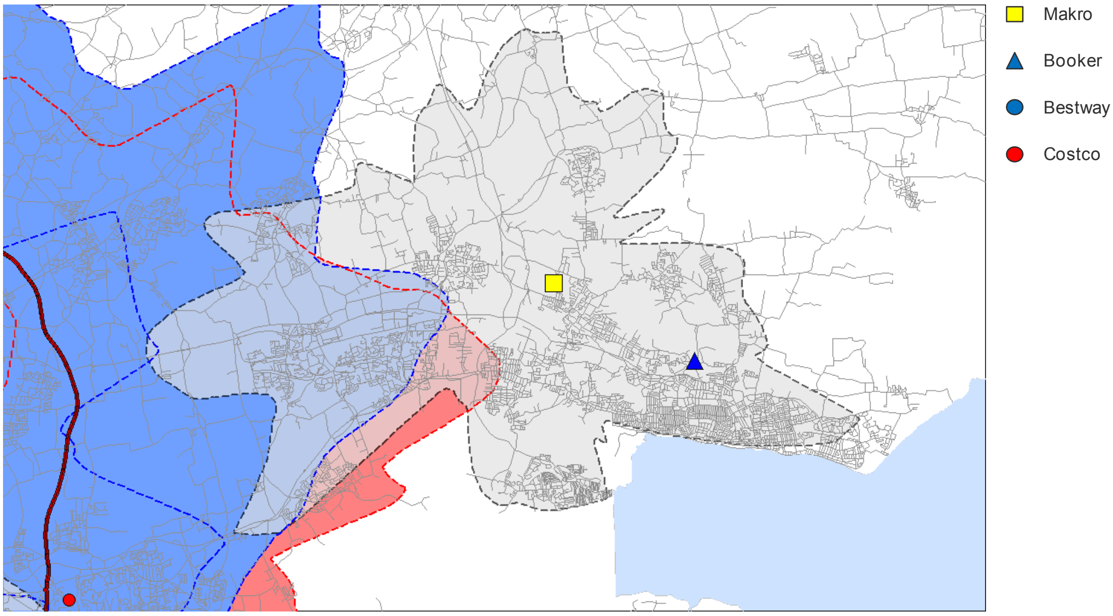
Source: Parties' submissions, CC analysis.

94. Within the 30-minute isochrone the number of national and large regional cash-and-carry fascias reduces from two to one post-merger. However, two additional competi-

tors, Bestway and Costco, have significant overlapping areas within the 30-minute isochrone of Makro. Figure 22 illustrates the overlap areas.

FIGURE 22

Overlapping areas in Rayleigh (30-minute isochrone)



Source: Parties' submissions, CC analysis.

95. We reviewed customer distributions in the local area to indicate if Bestway and Costco may be relevant competitors. Figure 23 shows that customers are broadly distributed across the area. A high proportion of the customer base is in areas covered by the Bestway and Costco isochrones. Therefore we considered Bestway and Costco to be relevant competitors in this local market. There were also groups of customers to the south-west of the Makro store, outside the isochrone. Figure 23 shows the distribution of Makro customers within the 30-minute isochrone in Rayleigh.

FIGURE 23

Customer distribution in Rayleigh (30-minute isochrone)

Source: Parties' submissions, CC analysis.

96. Brakes has a depot within a drive-time of 60 minutes from the Makro store in Rayleigh. One additional major national delivered operator, JJ, has a depot just outside the 60-minute isochrone—see Figure 21.

97. The survey results estimate the parties' share of customers' total spend. Booker tends to have a higher share of the spend of its customers than Makro has of Makro customers. Around [✂] per cent of Booker's catering customers and [✂] per cent of Makro's catering customers spend less than [✂] per cent with the respective party. Booker has a significant share of its retailer customers' share of spend, with [✂] per cent of its customers spending over [✂] per cent of their spend with Booker. For Makro, around [✂] per cent of its retailer customers spend less than [✂] per cent of their spend with Makro.[19] Overall, the share of spend for caterers and Makro retailer customers was considered to be low. This implies that there may be a number of alternative sources of supply in the market from which customers source their products.

98. The diversion ratios for Booker range between [✂] and [✂] per cent for catering customers and are low for retail customers. Unweighted diversion ratios for caterer customers are lower than those weighted by monthly spend. The diversion ratios for Makro are low for caterers and range between [✂] and [✂] per cent for retailers. High diversion might imply that Booker is a competitive alternative for many of Makro's retailer customers; however, we note that the survey data suggests that 80 per cent of Makro's retail customers use it for less than 10 per cent of their supply. Makro may provide an alternative for some of Booker's catering customers.

99. GUPPIs have been calculated with unweighted and with monthly-spend weighted diversion ratios. In Rayleigh, the price indicators for Booker caterers were moderate

[19] These results are based on a very low sample size. Number of responses is low for Booker (caterer (26), retailer (27) and whole sample (73)) and Makro (caterer (16), retailer (29) and whole sample (87)) in Rayleigh. 'Don't know' responses were not considered.

using weighted diversion ratios, with GUPPIs ranging between [✂] and [✂] per cent. For Booker retailer and both types of Makro customers the price indicators are low.

100. Based on our initial specification, the number of national and large regional cash-and-carry fascias reduces from two to one post-merger. However, a review of over-lapping areas with other competitors and of the customer distribution in the local area showed that two additional national cash-and-carry operators—Bestway and Costco—can be considered as relevant competitors. At least two national delivered operators were also operating in the area. The survey highlighted a potential concern for retail customers, who had a substantial share of total spend at Booker. However, diversion ratios and GUPPIs for Booker's retail customers are low. Makro's retail customers' diversion ratios and GUPPIs were moderate, but its share of spend for these customers is very low.

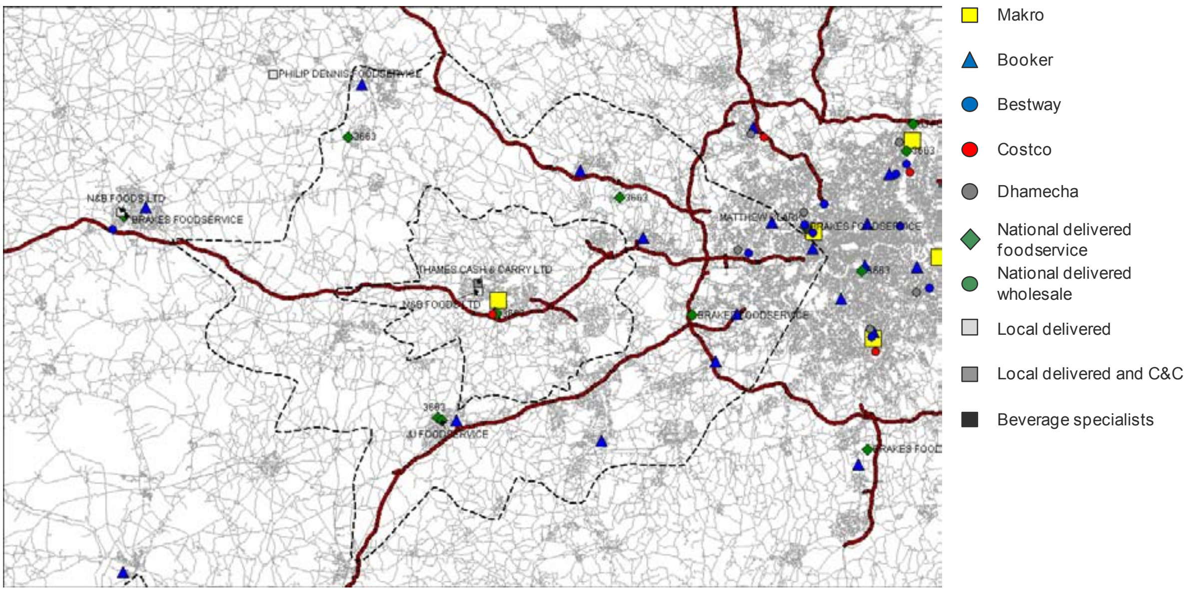
Reading

101. The Reading urban area is located in south-east England and has a population of 370,000. Reading has good transport links, including several 'A' roads and direct access to a motorway (the M4). The latter leads to London (approximately 65 km), a market with several national and large regional cash-and-carry operators.

102. One Booker and one Costco store can be identified within the 30-minute isochrone of the Makro store in Reading. All three fascias are located to the south of Reading. Booker and Costco are very close to each other. Figure 24 shows Reading and the location of different fascia types within 30-minute and 60-minute isochrones of the Makro store.

FIGURE 24

Other fascias within 30- and 60-minute isochrones in Reading

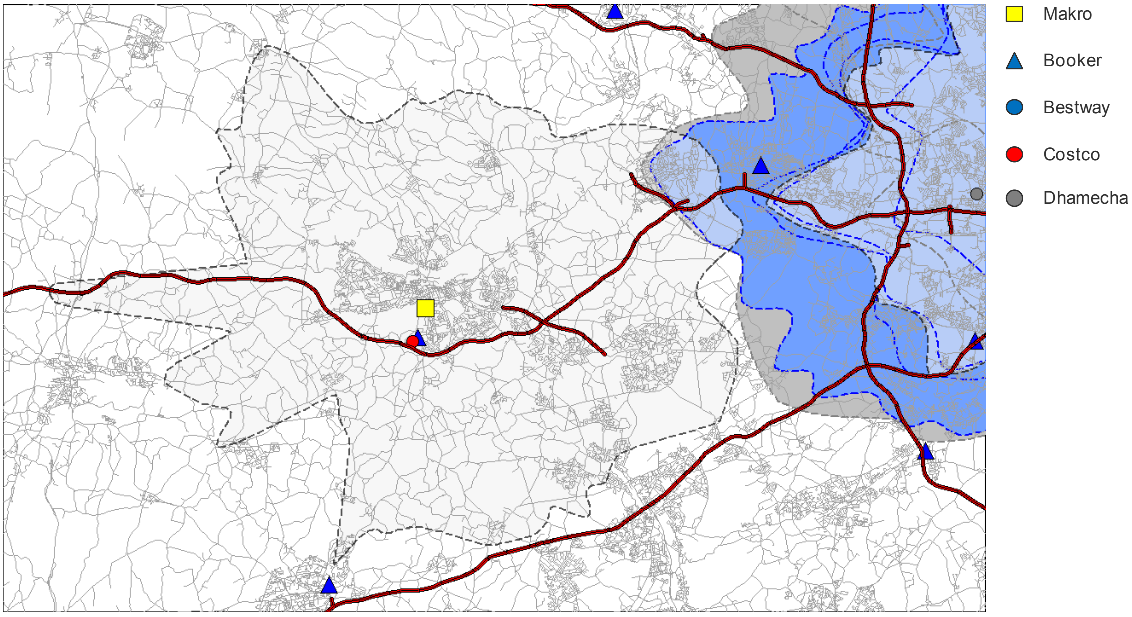


Source: Parties' submissions, CC analysis.

103. Within the 30-minute isochrone of the Makro store in Reading, the number of national and large regional cash-and-carry operators reduces from three to two. However, we can identify significant overlapping areas to the east of the Makro isochrone where Bestway and Dhamecha are present. Figure 25 illustrates the overlap areas.

FIGURE 25

Overlapping areas in Reading (30-minute isochrone)



Source: Parties' submissions, CC analysis.

104. A review of the customer distribution in the local area confirms that Bestway and Dhamecha are relevant for the Reading local market. A significant number of customers are located to the north-east of the Makro store in areas such as Slough and Maidenhead. These customers are located within 30 minutes' drive-time of a Bestway or a Dhamecha store, suggesting that the relevant local market may be larger than the isochrone suggests. We consider Bestway and Dhamecha to be relevant competitors for these customers. Figure 26 shows distribution of Makro customers within the 30-minute isochrone in Reading.

FIGURE 26

Customer distribution in Reading (30-minute isochrone)

Source: Parties' submissions, CC analysis.

105. Three major national delivered operators have depots within 60 minutes' drive-time of the Makro store in Reading. These are 3663, Brakes and JJ—see Figure 24.

106. We were able to identify one local operator providing both delivered and cash-and-carry services (Thames Cash & Carry) and one operator providing a delivered service (N&B Foods)—see Figure 24.

107. The survey results estimate customers' share of spend spent with the parties. If we do not distinguish between customer groups, the results imply that Booker customers tend to spend a higher share of spend with Booker than Makro customers do with Makro. For Booker, [✂] per cent of caterers and [✂] per cent of retailers spend less than [✂] per cent of their total spend with Booker. For Makro, the spend shares by customer group are lower. [✂] per cent of caterers and [✂] per cent of retailers spend less than [✂] per cent of their spend with Makro.[20] We considered the share of spend to be low for both Booker and Makro. The level of the spend share implies that customers are likely to be sourcing their demand from a number of other suppliers in the Reading area.

108. Booker's catering customers have diversion ratios ranging between [✂] and [✂] per cent, with unweighted diversion ratios being lower than those weighted by monthly spend. Diversion ratios from Booker to Makro for retailers are low. Makro's retail customers have diversion ratios ranging between [✂] and [✂] per cent with un-weighted diversion ratios being lower than those weighted by monthly spend. High diversion ratios might imply that Booker and Makro are close competitors and that the number of alternative fascias is limited in the market. However, in the case of Booker customers this applies only to caterers and in the case of Makro customers

[20] These results are based on a very low sample size. The number of responses is low for Booker (caterer (25), retailer (17) and whole sample (61)) and Makro (caterer (22), retailer (20) and whole sample (89)) in Reading. 'Don't know' responses were not considered.

only to retailers. Furthermore, we note that the shares of spend held by both parties across all customers are low.

109. We calculated GUPPIs with both unweighted and monthly-spend weighted diversion ratios. In Reading, the price indicators seem to be moderate for Booker caterer customers, with GUPPIs ranging between [✂] and [✂] per cent. In the case of Makro, we identified moderate GUPPIs for retailers but only if calculated with weighted diversion ratios, ranging between [✂] and [✂] per cent. For Booker's retail and Makro's catering customers the GUPPIs were low.

110. Based on our initial filter, the fascia count of national and large regional cash-and-carry operators in Reading 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—should be considered as relevant competitors. Furthermore, we found that national delivered operators were present in the area, as were Thames Cash and Carry and N&B Foods, both local competitors. The survey data showed low shares of spend held by the parties, implying that there may be other competitors in the market.

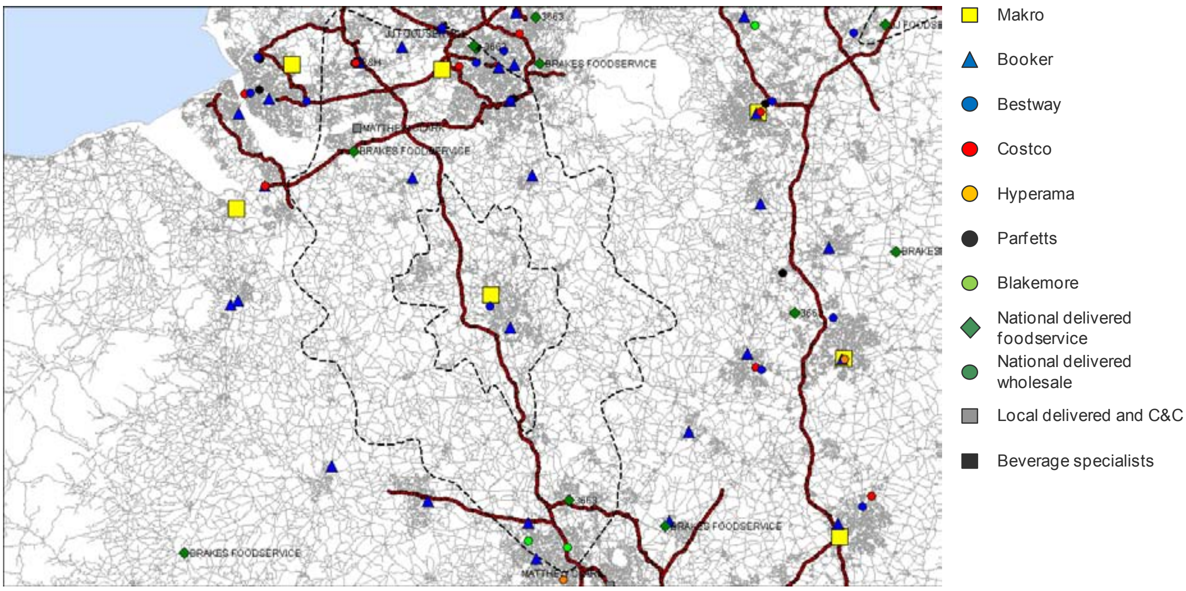
Stoke

111. Stoke-on-Trent (Stoke) is part of the Potteries Urban Area. The Potteries urban area is considered to be medium-sized with a population of approximately 360,000. The city is located next to the M6 motorway and has good transport links to Birmingham to the south and Manchester to the north (approximately 72 km in both directions).

112. One Booker store can be identified within the 30-minute isochrone of the Makro store. Bestway, a major national cash-and-carry operator, also operates within the isochrones and is the closest competitor to the Makro store in terms of distance. Figure 27 shows Stoke and the location of different fascia types within 30-minute and 60-minute isochrones of the Makro store.

FIGURE 27

Other fascias within 30- and 60-minute isochrones in Stoke

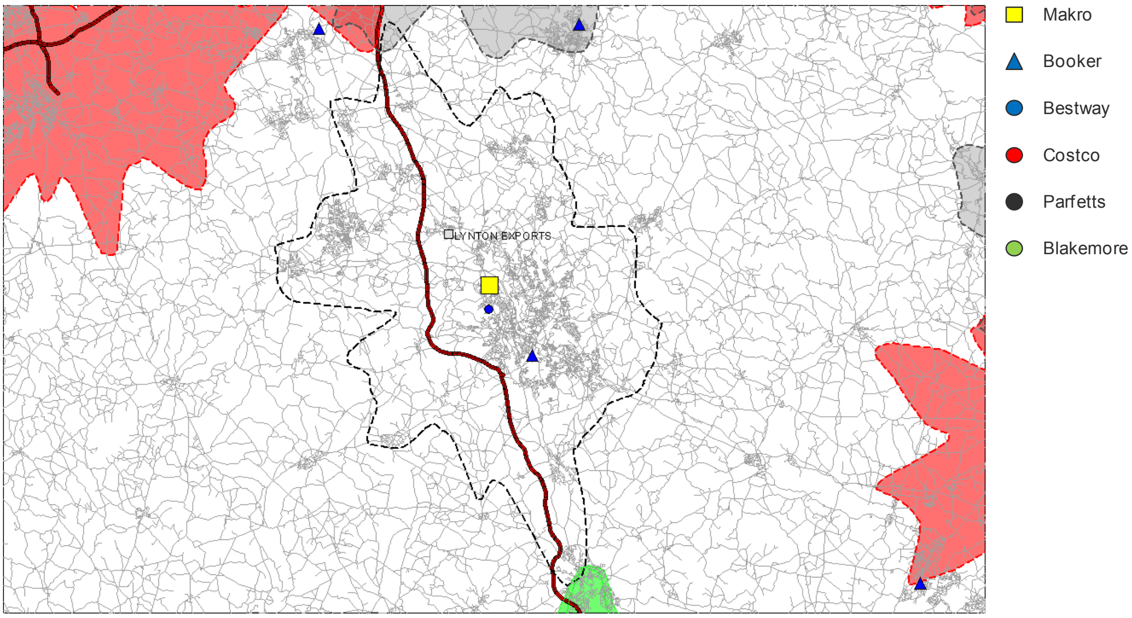


Source: Parties' submissions, CC analysis.

113. Within the 30-minute isochrone for the Makro store in Stoke, the merger reduces the count of national and large regional cash-and-carry fascias from three to two. Bestway is the remaining national cash-and-carry operator. Stoke is located between major urban and commercial areas to the north and south, and as a result there is some (relatively marginal) overlap from Costco and Parfetts to the north and Hyperama to the south. Figure 28 illustrates the overlap areas.

FIGURE 28

Overlapping areas in Stoke (30-minute isochrone)

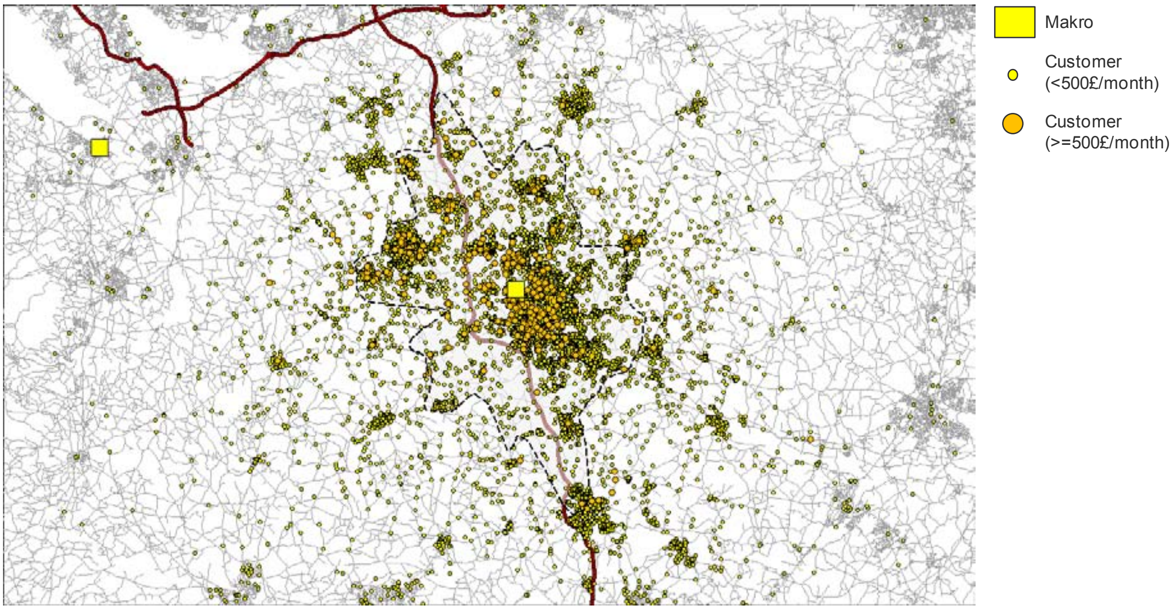


Source: Parties' submissions, CC analysis.

114. We analysed the distribution of customers to assess whether Costco, Parfetts and Hyperama are relevant competitors. Customers are well distributed across the Stoke Makro 30-minute isochrone. We identified a significant customer grouping in the south of the defined market (Stafford). For these customers, Hyperama is a relevant competitor. However, the customer density appears to be lower to the north, so the competitive constraint from Costco and Parfetts is likely to be marginal. Figure 29 shows the distribution of Makro customers within the 30-minute isochrone in Stoke.

FIGURE 29

Customer distribution in Stoke (30-minute isochrone)



Source: Parties' submissions, CC analysis.

115. Four major national delivered operators covering both catering and retail have depots within a drive-time of 60 minutes of the Makro store in Stoke. These are 3663, Brakes, JJ and Palmer and Harvey.

116. In terms of local competitors, we identified one beverage specialist (Matthew Clark), which is located within the 60-minute isochrone—see Figure 27.

117. The survey results provide an estimate of customers' share of spend with the parties. The survey shows that Booker customers tend to spend a higher share of their overall budget with Booker than Makro customers do with Makro. For retail customers, the survey shows that [✂] per cent of Booker retail customers spend less than [✂] per cent of their total spend with Booker compared with [✂] per cent of Makro's retail customers. In catering, around [✂] per cent of Booker's catering customers spend less than [✂] per cent with Booker and the same is true for around [✂] per cent of Makro catering customers.[21] The share of spend was considered to be low for Booker and Makro retailers. For Makro and Booker caterers, the spend share is moderate. This is consistent with customers sourcing products from other competitors relevant for the Stoke local area.

118. Booker's catering customers' diversion ratios range between [✂] and [✂] per cent. Diversion ratios for retail customers are low. For Makro's catering customers, the diversion ratios range between [✂] and [✂] per cent. These are slightly lower for Makro's retail customers, ranging between [✂] and [✂] per cent. These diversion ratios suggest that Makro customers see Booker as a relevant alternative source of supply and are consistent with the limited number of alternative fascias in the market.

[21] These results are based on a very low sample size. Number of responses is low for Booker (caterer (30), retailer (31) and whole sample (82)) and Makro (caterer (22), retailer (30) and whole sample (92)) in Stoke. 'Don't know' responses were not considered.

119. GUPPIs have been calculated using unweighted and monthly-spend weighted diversion ratios. The price indicators seem to be high for Booker's caterer customers based in Stoke, with GUPPIs ranging between [✂] and [✂] per cent. For Booker and both types of Makro customers, the price indicators are low.

120. 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. We found that four major delivered competitors operated from depots within 60 minutes of the Makro store. Furthermore, we identified one local competitor relevant for the local area in Stoke. The parties' share of spend is low to moderate, consistent with there being other competitors in the market.

Demographics

121. Table 1 shows the population for the urban areas outlined in the detailed analysis of local markets.

TABLE 1 **Population**

Urban area	*Population*	*Country/region*
Bristol urban area	551,066	South-west England
Leicester urban area	441,213	East Midlands
Bournemouth urban area	383,713	South-west England
Reading/Wokingham urban area	369,804	South-east England
The Potteries urban area	362,403	West Midlands
Kingston upon Hull	301,416	Yorkshire & the Humber
Southend urban area	269,415	East of England
Norwich urban area	194,839	East of England
Ipswich urban area	141,658	East of England
Exeter	106,772	South-west England
Chester urban area	90,925	North-west England
Wrexham urban area	63,084	Wales

Source: ONS Census 2001.

Diversion ratios

122. Table 2 shows diversion ratios by customer group for all 18 local markets identified for the detailed local analysis. The table includes unweighted diversion ratios and diversion ratios weighted with monthly spend.

TABLE 2 **Diversion ratio by local market**

per cent

		Booker			*Makro*		
Local market	*Diversion ratio*	*Caterer*	*Retailer*	*All*	*Caterer*	*Retailer*	*All*
Aberdeen	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Aberdeen	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Bristol	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Bristol	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Charlton/Greenwich	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Charlton/Greenwich	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Edinburgh/Longstone	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Edinburgh/Longstone	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Exeter	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Exeter	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Hull	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Hull	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Ipswich	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Ipswich	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Leicester	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Leicester	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Norwich	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Norwich	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nottingham	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nottingham	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Poole/Bournemouth	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Poole/Bournemouth	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Preston/Blackburn	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Preston/Blackburn	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Queensferry/Chester	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Queensferry/Chester	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Rayleigh/Southend	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Rayleigh/Southend	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Reading	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Reading	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Southampton/Portsmouth	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Southampton/Portsmouth	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Stoke	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Stoke	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Teesside/Stockton	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Teesside/Stockton	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Parties' submissions, GfK Survey, CC analysis.

Price indicators

123. Table 3 shows GUPPIs for all 18 local markets identified for the detailed local analysis. The GUPPIs were calculated with unweighted diversion ratios and diversion ratios weighted with monthly spend.

TABLE 3 **GUPPI by local market**

per cent

		Booker			*Makro*		
Local market	*Diversion ratio*	*Caterer*	*Retailer*	*All*	*Caterer*	*Retailer*	*All*
Aberdeen	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Aberdeen	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Bristol	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Bristol	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Charlton/Greenwich	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Charlton/Greenwich	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Edinburgh/Longstone	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Edinburgh/Longstone	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Exeter	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Exeter	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Hull	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Hull	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Ipswich	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Ipswich	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Leicester	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Leicester	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Norwich	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Norwich	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nottingham	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Nottingham	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Poole/Bournemouth	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Poole/Bournemouth	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Preston/Blackburn	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Preston/Blackburn	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Queensferry/Chester	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Queensferry/Chester	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Rayleigh/Southend	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Rayleigh/Southend	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Reading	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Reading	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Southampton/Portsmouth	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Southampton/Portsmouth	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Stoke	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Stoke	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Teesside/Stockton	Unweighted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Teesside/Stockton	Weighted (monthly spend)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Parties' submissions, GfK Survey, CC analysis.

Impact of local concentration on Booker's variable profit margins

Introduction and main findings

1. This appendix examines how local concentration affects variable profit margins of Booker's stores across the UK.

2. The main result of this analysis was that the higher the number of competing fascias that a Booker store faces, the lower was its variable profit margin. This suggested that there is a local dimension to competition in cash-and-carry wholesaling of grocery and related non-grocery products, and that the presence (or absence) of local cash-and-carry outlet(s) is a factor that impacts local competitive outcomes.

3. In particular, we estimated that an additional national or large regional fascia is associated with a decrease in margins of approximately [✂] percentage points. This result is statistically significant.

4. We also separated out the effects of Makro and the remaining group of national and large regional competitors. We estimated that margins in local markets where Makro is present are (on average) between [✂] and [✂] percentage points lower than margins in markets where Makro is not present. These point estimates are relatively large in absolute value, but they are only statistically significant at or just above the 10 per cent significance level.

5. Given an average variable margin of [✂] per cent across the stores that face Makro in their isochrones, the estimated effect of an additional national or large regional fascia appears to be modest.[1] When expressed in monetary terms, the estimated effect of an additional national or large regional fascia implies a variable profit gain between £[✂] and £[✂] in the 68 affected Booker stores post-merger—this compares with a total current variable profit in these 68 stores of £[✂].

6. We did not consider that the results could be used to simulate the effects of the merger on price in specific areas. This is because the estimated effect of higher concentration represented 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. However, the estimated effect of an additional national or large regional fascia on Booker's margins implied an increase in price on average across all of the 68 affected Booker stores taken together of up to [✂] per cent (post-merger), though we noted that we expect the magnitude of the effect to vary in different areas.

7. In this appendix, we first outline our theory of harm and the calculation of variable profit margins. After that, we describe our econometric approach and the results of the analysis of Booker's margins. The full regression results are contained in Annex 1. We also analysed Makro's margins. However, due to data problems and the small size of the sample in the case of Makro (due to the relatively small number of stores), we did not consider the results of the analysis to be reliable, and do not report them in this appendix.[2]

---

[1] The average variable margin of all Booker stores is [✂] per cent.
[2] The margins delivered by Makro contain supplier income that is allocated retrospectively. It is unclear to which extent the actual realization of this income equals its expected value.

Theory of harm

8. The factors on which food wholesalers compete locally include prices, discounts, promotional activities, range and service. [✂], and we were told by the majority of third parties that they price at least regionally. [✂]

9. Our theory of harm is therefore that prices, discounts, promotional activities, range and service are likely to depend on the degree of concentration in local markets. That is, the merger may harm consumers if it leads to higher prices, fewer discounts and promotional activities, limited ranges or lower customer service levels. To test this theory, we constructed a measure of variable margins that incorporated these factors. We then examined whether this measure depends on the number of competitors and/or Makro's presence in local markets. It would have been consistent with our theory of harm if we had found *(a)* a negative relationship between margins and the number of local competitors and/or *(b)* that Booker's margins were lower in local markets where Makro is present compared with local markets where Makro is not present.

Calculation of variable margins

10. Booker supplied us with monthly gross margins for each department at store level.[3] In addition, we received monthly income and cost components at store level that spanned across departments and store-level variable staff costs. Based on sales in the ten departments, unallocated income and cost components and variable staff costs, we constructed a measure of variable margins (total sales minus total cost of sales and total variable staff costs, as a percentage of sales) by store for the financial year 2012 (FY 2012).[4] This results in 171 observations (excluding the store in Bradford that opened at the beginning of the calendar year 2012).

Incorporated items

11. We subtracted all discounts (except retrospective discounts) from revenues and included, apart from cost prices, variable staff costs and expenses related to promotions on the cost side.[5] This reflects our theory of harm, which predicts higher promotional activity and higher service levels (which may come through higher spending on staff) in markets with low concentration. The cost prices we used can partly be interpreted as 'expected values', as they include supplier retrospective payments that are allocated to stores on a monthly basis and are based on updated forecasts of supplier income. This approach assumed that business decisions today are based on expectations regarding future income streams. As the expected value of these income streams may differ from their realization, we considered it appropriate to include 'expected' supplier income rather than actual supplier income. A list of all included items is contained in Annex 1.

---

[3] There are ten departments, which are mutually exclusive: Retail Grocery, Catering Grocery, Confectionery, Dairy Deli & Bakery (DDB), Frozen Food, Fruit & Vegetables, Meat, Non Food, Tobacco and Beer, Wine and Spirits (BWS). Each department contains a set of product categories, eg Retail Grocery contains Retail Beverages, Retail Sugar/Syrup, etc.
[4] Booker said that the staff costs submitted were payroll costs which were 100 per cent variable, ie would be equal to zero if sales were zero.
[5] We also include wastage and meat shrinkage transfer, as these costs are inherent to specific product groups and therefore product range.

Items not incorporated

12. We do not incorporate inventory adjustments, Spend & Save and Catering Club retrospective payments, 'drop shipment' contributions to margins and sales and inbound freight benefits into our margin calculation. These terms are explained in more detail below.

Inventory adjustments

13. Inventory adjustments usually record losses due to events such as theft, accident and so on.[6] It is neither clear how these factors relate to our theory of harm, nor do we expect them to be passed on into prices. We therefore did not incorporate inventory adjustments into our margin calculation. Including inventory adjustments would only marginally change the estimated effects of concentration on margins.[7]

Spend & Save discounts

14. Spend & Save and Catering Club retrospective payments can be obtained by any Booker customer that achieves certain expenditure targets within a given time frame. The eligibility of all customers implies that these payments cannot be given in response to local competition. Therefore, subtracting these payments from revenues would introduce variance in the dependent variable that is caused by pure volume effects. These volume effects may bias the estimated effect of concentration. For example, if regions with low concentration contain many customers with large expenditures, then the estimated effect of concentration on margins may be overstated. Therefore we did not subtract Spend & Save and Catering club retrospective payments from revenues.

Drop shipment contributions to margins and sales

15. 'Drop shipments' relate to a scheme through which customers can order directly from suppliers and have the invoice handled by Booker. As this is a business that is different from Booker's core wholesale activities (and therefore not an area of competitive concern), we did not include margin and sales contributions from drop shipments in our margin calculation.

Variable distribution costs

16. Booker submitted a margin-concentration analysis for which a measure of variable distribution costs was incorporated into the calculation of variable margins. Booker argued that this incorporation would account for stores in remote areas being more expensive to serve. In particular, Booker stated that omitting variable distribution costs from the margin calculation would overstate the effect of concentration on margins, as more remote areas would tend to have both higher variable distribution costs and fewer competitors. We considered these arguments but concluded that our analysis—which does not incorporate variable distribution costs into the margin calculation, but does include different measures of these costs and remoteness as control variables—is robust, for the following reasons:

[6] Booker records these adjustments in its systems under the categories 'PERP INVENT', 'INVENTORY ADJ' and 'SHRINKAGE'.
[7] There may be inefficiencies in local monopoly areas inflating inventory costs. In principle, this may also serve as an argument to exclude inventory adjustments from the margin calculation.

(a) In general, there is uncertainty about the magnitude of the effect of explanatory variables on the dependent variable. For this reason, it is usual to control for explanatory variables by econometric estimation, rather than by assuming a particular magnitude of their impact on the dependent variable. This is especially the case when there is conflicting qualitative evidence on the expected impact of an explanatory variable on the dependent variable.[8]

(b) Therefore, we have included different measures of store remoteness in our model—including the measure of variable distribution costs that was proposed by Booker—to allow for the possibility that stores in more remote areas may have higher margins because they are more expensive to serve.[9] Inclusion of these measures of remoteness into our model does not significantly affect the estimated effects of concentration on margins. Moreover, we rejected the hypothesis that distribution costs as a percentage of sales are passed on into margins one-to-one, which is an assumption made in Booker's own margin-concentration analysis.

Inbound freight benefit

17. Booker submitted that some suppliers made contributions towards the costs of Booker's distribution network. It said that, for the purpose of the margin-concentration analysis, these benefits should be allocated to stores proportionately to their share of overall sales. We noted that doing so does not affect the estimated impact of concentration on margins. However, it is not clear whether this approach is conceptually correct. In particular, it is not clear why variable distribution costs should be allocated to stores according to remoteness, but supplier's contributions towards these costs should be allocated proportionately to sales. As distribution costs and inbound freight benefits are almost equal in size (£[✂] million in FY 2012), one would expect both effects to roughly cancel each other out when applying the same allocation procedure. Given these concerns, we did not incorporate inbound freight benefits into the margin calculation.

Econometric approach

18. We implemented two different regression analyses. First, we examined the impact of large competitors by regressing Booker's margins on the count of national and large regional fascias.[10] Second, we tested for Makro-specific effects on Booker's margins by regressing Booker's margins on a Makro dummy and a count of national and large regional fascias that excludes Makro. All fascia counts are based on 30-minute drive-time isochrones around each Booker store. The Makro dummy indicates Makro's presence in a given 30-minute isochrone around Booker (ie it takes the value of 1 if Makro is present and is 0 otherwise). In each regression, we include a set of additional control variables, which are described in the following section.

[8] Booker told us that prices did not vary according to distribution costs.
[9] For reasons described below, the measure of variable distribution costs calculated by Booker may neither be an accurate reflection of actual variable distribution costs, nor should the way in which it implicitly enters Booker's model (divided by a store's sales) appropriately account for remoteness. Therefore, we have constructed additional measures of remoteness and included them in our model.
[10] The count of national and large regional fascias includes Bestway/Batleys/Bellevue, Costco, Parfetts, Blakemore and Tyne Tees, Dhamecha, BA C&C, Hyperarma, United Wholesale and Makro. This count was constructed by the CC.

Control variables

19. We used the ratio of retail to catering stores in a given isochrone to control for differences in purchasing patterns between retailers and caterers.[11] In addition, we employed two different sets of socio-economic variables to control for local demand and cost conditions: the first contains specific socio-economic controls (unemployment rate, earnings per week, ethnic minority proportion of population, proportion of population that is between 15 and 29 years old), which refer to the areas covered by Booker's isochrones; the second contains dummy variables that group local markets based on a broad range of socio-economic characteristics (eg age, ethnicity, unemployment etc).[12] These dummies were based on 2001 census information.[13] Even though the 2001 census data may be somewhat outdated, we considered that it would still capture the main socio-economic differences across local markets.

Descriptive statistics

20. Table 1 shows descriptive statistics (mean, standard deviation, minimum and maximum) of the variables employed in the analysis.

TABLE 1 **Summary statistics**

Variable	*Mean*	*Std dev*	*Min*	*Max*
Variable margin (%)	[✂]	[✂]	[✂]	[✂]
Makro-dummy	[✂]	[✂]	[✂]	[✂]
Number of national and large regional fascias (excluding Makro)	[✂]	[✂]	[✂]	[✂]
Number of national and large regional fascias (including Makro)	[✂]	[✂]	[✂]	[✂]
Ratio of retail to catering stores	[✂]	[✂]	[✂]	[✂]
Unemployment (%)	[✂]	[✂]	[✂]	[✂]
Earnings per week (£'00)	[✂]	[✂]	[✂]	[✂]
Ethnic minority share (%)	[✂]	[✂]	[✂]	[✂]
Percentage of population aged 15–29	[✂]	[✂]	[✂]	[✂]
Distribution costs as percentage of sales	[✂]	[✂]	[✂]	[✂]
Distribution costs (£'000)	[✂]	[✂]	[✂]	[✂]
Distance to distribution centre ('00 km)	[✂]	[✂]	[✂]	[✂]
Cities and services	[✂]	[✂]	[✂]	[✂]
London suburbs	[✂]	[✂]	[✂]	[✂]
London centre	[✂]	[✂]	[✂]	[✂]
London cosmopolitan	[✂]	[✂]	[✂]	[✂]
Prospering UK	[✂]	[✂]	[✂]	[✂]
Coastal and countryside	[✂]	[✂]	[✂]	[✂]
Mining and manufacturing	[✂]	[✂]	[✂]	[✂]

Source: ONS, Booker, Makro.

Reverse causality between margins and concentration

21. In general, bias arising from reverse causality between margins and concentration may arise in margin-concentration analyses. For this reason, the identified effects of concentration on margins may be biased upwards (ie may be less negative than the true effects).[14]

[11] Source: Makro internal business universe data, supplied by Frontier Economics. If retailers tend to buy lower margin products than caterers, then one would expect this variable to have a negative impact on margins.
[12] The source of all variables is the ONS. The fitting of the specific socio-economic controls to Booker's isochrones was provided by Booker itself (except the proportion of population that is between 15 and 29 years old).
[13] The dummies group local markets into the following categories: Cities and Services, London Suburbs, London Centre, London Cosmopolitan, Prospering UK, Coastal and Countryside and Mining and Manufacturing.
[14] We use the ordinary least squares (OLS) estimator for our analysis.

Results of the econometric analysis

Estimated effects of concentration on margins

22. Independent of the set of socio-economic controls employed, we estimated that an additional national/large regional fascia is associated with a decrease in margins of approximately 0.30 percentage points.[15] These effects are statistically significantly different from zero at the 1 per cent level. The details of the regressions are in Annex 1, Tables 3 and 4.

23. We estimated that margins in local markets where Makro is present are (on average) between 0.60 and 0.70 percentage points lower than margins in markets where Makro is not present. These point estimates are relatively large in absolute value. However, they are estimated imprecisely, ie they are only statistically significant at or just above the 10 per cent level. The results of this analysis are therefore inconclusive. The details of the regressions are contained in Annex 1, Tables 5 and 6.

Estimated profit gain from the merger

24. We calculated an estimate of Makro's impact on Booker's margins in monetary terms, using the estimated effects to compute the bounds of the total change in Booker's variable profit as a result of the merger. Given the imprecisely estimated effect of Makro's presence on margins, we used the estimated effect of an additional national or large regional fascia for this purpose.

25. Assuming that the margin increase comes entirely through an increase in revenue, the profit gain can be calculated as the difference between post- and pre-merger revenues; assuming that the margin increase comes entirely through a decrease in cost, the profit gain can be calculated as the difference between pre- and post-merger cost.

26. We denoted market structure pre-merger with a *0* and market structure post-merger with a *1*. Holding revenue constant and using the estimated effect of 0.3 percentage points, we can then calculate the post-merger cost of the 68 Booker stores that face Makro in their isochrones as:

$$((\text{revenue}\mathit{0} - \text{cost}\mathit{1})/\text{revenue}\mathit{0})*100 = [\text{✂}]\%+[\text{✂}]\%$$

$$\text{cost}\mathit{1} = \text{revenue}\mathit{0}*(1-(([\text{✂}]\%+[\text{✂}]\%)/100))$$

[✂] per cent is the average variable margin across the 68 Booker stores that face Makro in their isochrones. The profit gain following the merger can then be computed as cost*0*–cost*1*. Conversely, holding cost constant, the post-merger revenue of the 68 Booker stores can be calculated as:

$$((\text{revenue}\mathit{1} - \text{cost}\mathit{0})/\text{revenue}\mathit{1})*100 = [\text{✂}]\%+[\text{✂}]\%$$

$$\text{revenue}\mathit{1} = \text{cost}\mathit{0}/(1-(([\text{✂}]\%+[\text{✂}]\%)/100))$$

In this case, the profit gain following the merger can be computed as revenue*1*–revenue*0.*

[15] Our dependent variables are always expressed in levels (not logarithms). We always use heteroscedasticity-robust standard errors.

27. We found that if the margin increase following the merger comes entirely through a decrease in cost, then Booker would be able to increase its total variable profit by £[✂] (for the estimated effect of 0.30 percentage points). If, instead, the merger leads to margins being increased entirely through an increase in revenue, then the resulting profit is estimated to be £[✂] (for the estimated effect of 0.30 percentage points). These figures compare to a total current variable profit in the 68 Booker stores of £[✂].

28. We divided the estimated increase in revenue post-merger (£[✂]) by total current revenue in the 68 affected Booker stores (£[✂]) to simulate the average price increase post-merger across these stores. This gave an increase in price on average across all of the 68 affected Booker stores taken together of [✂] per cent. We considered this figure as an upper bound for an average price increase in the 68 affected Booker stores, as it was derived under the assumption that the estimated margin increases would come entirely through an increase in price.[16]

Controlling for variable distribution costs

29. For the purpose of its margin-concentration analysis, Booker allocated variable distribution costs to stores based on the distance from stores to their distribution centres. In the following section, we first discuss this allocation methodology. After that, we assess the approach of directly incorporating variable distribution costs into the margin calculation.

Calculation of variable distribution costs

30. Booker calculated variable distribution costs in the following way. First, for each regional distribution centre, the distances to the stores that it serves were summed ('summed distances'). For example, if distribution centre A delivers to two stores, store B being 10 km and store C being 90 km away from it, then this figure would be 100 km. Second, the total variable distribution costs of each regional distribution centre were divided by the relevant summed distance, which gives a measure of variable distribution costs per km for each regional distribution centre. In our example, if the total variable distribution costs of centre A equal £100,000, then the variable distribution costs per km would equal £1,000. The final measure of variable distribution costs of each store was obtained by multiplying a given store's distance to its regional distribution centre by the relevant variable distribution costs per km. In our example, this means that store B would be allocated £10,000 and store C would be allocated £90,000 of variable distribution costs.

31. We considered it questionable whether this approach to allocating variable distribution costs, which does not account for differences in volumes across stores, is appropriate. For example, it is not obvious why the stores in Medway and Oxford, which are both roughly 82 km away from their regional distribution centre in Hatfield, but account for very different sales volumes (£[✂] and £[✂] respectively), should have the same variable distribution costs.[17] It is therefore unclear whether the proposed measure of variable distribution costs accurately reflects actual variable distribution costs of Booker's stores.

[16] 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.
[17] This difference in sales is lower but still significant if one takes out tobacco sales, in which case Medway accounts for £[✂] and Oxford for £[✂] of sales.

32. We considered it unclear what economic interpretation should be given to the ratio of variable distribution costs to sales, which is the way in which the allocated variable distribution costs enter Booker's econometric model (see below). Given that the variable distribution cost allocation does not take into account the volume of the delivered products, we considered the distribution cost/sales ratio to be unlikely accurately to reflect actual distribution costs. Moreover, we considered the ratio calculated unlikely to reflect remoteness, as it differs for two stores that are equally far away from their regional distribution centre if the two stores account for different sales volumes. For example, the ratio is twice as high for the Booker store in Oxford compared with the store in Medway, even though both stores are equally far away from their distribution centre in Hatfield. Given these concerns, we chose to include alternative measures of remoteness in our model.

Introducing variable distribution costs into the model

33. The econometric model proposed by Booker can be summarized as follows:

$$(Sales - VDC - OVC)/Sales = \beta^{*}X + \varepsilon \qquad (1)$$

where *VDC* are variable distribution costs, *OVC* represent other variable costs, *X* contains controls including the fascia count, β is a vector of coefficients to be estimated and ε is the error term. Rearranging this equation gives:

$$(Sales - OVC)/Sales = 1^{*}(VDC/Sales) + a^{*}X + \varepsilon \qquad (2)$$

In the second equation, the term *(VDC/Sales),* which represents variable distribution costs over sales, has been multiplied by one. That is, the proposed approach to margin calculation imposes the assumption that increases in the ratio of variable distribution costs to sales are passed on into margins one for one. Technically, the coefficient multiplying the term *(VDC/Sales)* is restricted to one. We have included the term *(VDC/Sales)* in our model to test this assumption.

34. Column 2 of Tables 3 to 6 contains the results from our regressions when the ratio of variable distribution costs to sales is included in our model.[18] The estimated coefficients of this variable are positive and statistically significant. However, hypothesis tests that they equal 1 reject the null hypothesis at the 1 per cent significance level. These tests are displayed in Table 2.

TABLE 2 **Hypothesis tests on the estimated coefficient of (*VDC/Sales)*100***

Econometric specification	*Estimated coefficient on (VDC/Sales)*100*	*Test of hypothesis that this coefficient equals 1*
Table 3, column 2	0.3052046	F(1, 163) = 82.94 Prob > F = 0.0000
Table 4, column 2	0.3271935	F(1, 161) = 62.91 Prob > F = 0.0000
Table 5, column 2	0.3057421	F(1, 162) = 82.37 Prob > F = 0.0000
Table 6, column 2	0.3252796	F(1, 160) = 63.68 Prob > F = 0.0000

Source: CC analysis.

[18] As the dependent variable is expressed in per cent (ie is multiplied by 100), we have multiplied the term *(VDC/Sales)* by 100 before including it into the model.

35. Moreover, as column 2 of Tables 3 to 6 shows, inclusion of the ratio of variable distribution costs to sales does not significantly change the estimated effects of the fascia counts on margins.

36. Given our concerns regarding the economic meaning of the term *(VDC/Sales)*, we have included two alternative measures of remoteness in our model to allow for the possibility that stores in more remote areas may have higher margins because they are more expensive to serve. First, we included the variable distribution costs calculated by Booker *(VDC)*; second, we included the distance of each store to the distribution centre from which it is served. However, as columns 3 and 4 of Tables 3 to 6 show, there is no statistically significant relationship between these two measures of remoteness and margins. Moreover, the changes in the estimated effects of concentration that result from inclusion of these variables, if any, are marginal.

Items included in the margin calculation

1. With the exception of inventory adjustments, we included the complete margins by department in our calculation:[1]

   (a) buying margin (includes supplier funding for national promotions);

   (b) – customer-specific discounts;

   (c) + supplier retrospective terms payments (monthly allocation, based on updated forecasts of total supplier income);

   (d) + settlement discounts, +/– central adjustments in price; and

   (e) – wastage.

2. We included the following unallocated margin components, most of which are related to promotions and discounts:

   (a) funding for customer-specific lines (58001 PREM SUPP FUNDING, 58101 CLUB SUPP FUNDING, 58601 BUZZ SUPP FUNDING);

   (b) promotional funding for Premier, Club, SL2G and Buzz (57701 CLUB MRK SUPP, 57801 MARKETING SUPP, 57901 PREMIER MRK SUPP, 58501 BUZZ MRK SUPP);

   (c) customer-specific discounts (58701 CUST SPEC BUZZ DISC, 56701 CUSTOMER SPECIFIC DISCOUNT);

   (d) marketing monies used to support promotions (58801 SURPRISES);

   (e) shrinkage transfer (50208 MEAT SHRINKAGE TRF);

   (f) local price adjustments (57501 LPA); and

   (g) cost of stock drawn for events (57600 TRADE DAYS).

3. Finally, we included variable staff costs and the position ‘52106 CENT BUDGET MARK UP’ in our margin calculation. According to Booker, the latter category is mostly ‘due to duty and marked pack increases on tobacco product lines’. This category was allocated proportionately to each store’s share in total tobacco sales across all stores, which was a procedure suggested by Booker.[2]

Regression results

Impact of large C&C fascias on margins

4. The following tables contain the results from the regression analyses.

---

[1] Booker records inventory adjustments in its systems under the categories ‘PERP INVENT’, ‘INVENTORY ADJ’ and ‘SHRINKAGE’.
[2] We have some reservations regarding this allocation procedure, as it may not completely accurately reflect the actual mark-up contributions by each store.

TABLE 1 **Specifications with specific socio-economic controls**

per cent

	(1) *Variable margin*	*(2)* *Variable margin*	*(3)* *Variable margin*	*(4)* *Variable margin*
Number of large C&C fascias	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Unemployment (%)	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Earnings per week (£'00)	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Ethnic minority share (%)	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Percentage of population aged 15–29	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Ratio of retail to catering stores	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Distribution costs as percentage of sales		[✂]		
		[✂]		
Distribution costs (£'000)			[✂]	
			[✂]	
Distance to distribution centre ('00 km)				[✂]
				[✂]
Constant	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Observations	[✂]	[✂]	[✂]	[✂]
r2	[✂]	[✂]	[✂]	[✂]
r2_a	[✂]	[✂]	[✂]	[✂]

Source: CC analysis.

Note: Significance levels: * p<0.1, ** p<0.05, *** p<0.01. t statistics in parentheses.

TABLE 2 **Specifications with regional dummy variables**

per cent

	(1) *Variable margin*	*(2)* *Variable margin*	*(3)* *Variable margin*	*(4)* *Variable margin*
Number of large C&C fascias	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Ratio of retail to catering stores	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Cities and services	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
London suburbs	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
London centre	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
London cosmopolitan	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Prospering UK	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Coastal and countryside	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Mining & manufacturing	[✂]	[✂]	[✂]	[✂]
Distribution costs as percentage of sales		[✂]		
		[✂]		
Distribution costs (£'000)			[✂]	
			[✂]	
Distance to distribution centre ('00 km)				[✂]
				[✂]
Constant	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Observations	[✂]	[✂]	[✂]	[✂]
r2	[✂]	[✂]	[✂]	[✂]
r2_a	[✂]	[✂]	[✂]	[✂]
F-test on 'regional' dummies	[✂]	[✂]	[✂]	[✂]

Source: CC analysis.

Note: Significance levels: * p<0.1, ** p<0.05, *** p<0.01. t statistics in parentheses.

Impact of Makro's presence on margins

TABLE 3 **Specifications with specific socio-economic controls**

per cent

	(1) *Variable margin*	*(2)* *Variable margin*	*(3)* *Variable margin*	*(4)* *Variable margin*
Makro-dummy	[✄] [✄]	[✄] [✄]	[✄] [✄]	[✄] [✄]
Fascia count excluding Makro	[✄] [✄]	[✄] [✄]	[✄] [✄]	[✄] [✄]
Unemployment (%)	[✄] [✄]	[✄] [✄]	[✄] [✄]	[✄] [✄]
Earnings per week (£'00)	[✄] [✄]	[✄] [✄]	[✄] [✄]	[✄] [✄]
Ethnic minority share (%)	[✄] [✄]	[✄] [✄]	[✄] [✄]	[✄] [✄]
Percentage of population aged 15–29	[✄] [✄]	[✄] [✄]	[✄] [✄]	[✄] [✄]
Ratio of retail to catering stores	[✄] [✄]	[✄] [✄]	[✄] [✄]	[✄] [✄]
Distribution costs as percentage of sales		[✄] [✄]		
Distribution costs (£'000)			[✄] [✄]	
Distance to distribution centre ('00 km)				[✄] [✄]
Constant	[✄] [✄]	[✄] [✄]	[✄] [✄]	[✄] [✄]
Observations	[✄]	[✄]	[✄]	[✄]
r2	[✄]	[✄]	[✄]	[✄]
r2_a	[✄]	[✄]	[✄]	[✄]

Source: CC analysis.

Note: Significance levels: * p<0.1, ** p<0.05, *** p<0.01. t statistics in parentheses.

TABLE 4 **Specifications with regional dummy variables**

per cent

	(1) *Variable margin*	*(2)* *Variable margin*	*(3)* *Variable margin*	*(4)* *Variable margin*
Makro-dummy	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Fascia count excluding Makro	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Ratio of retail to catering stores	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Cities and services	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
London suburbs	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
London centre	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
London cosmopolitan	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Prospering UK	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Coastal and countryside	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Mining & manufacturing	[✂]	[✂]	[✂]	[✂]
Distribution costs as percentage of sales		[✂]		
		[✂]		
Distribution costs (£'000)			[✂]	
			[✂]	
Distance to distribution centre ('00 km)				[✂]
				[✂]
Constant	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Observations	[✂]	[✂]	[✂]	[✂]
r2	[✂]	[✂]	[✂]	[✂]
r2_a	[✂]	[✂]	[✂]	[✂]
F-test on 'regional' dummies	[✂]	[✂]	[✂]	[✂]

Source: CC analysis.

Note: Significance levels: * p<0.1, ** p<0.05, *** p<0.01. t statistics in parentheses.

Market entry and expansion

Introduction

1. This appendix considers the likelihood of entry into or expansion in the grocery wholesale market.

2. In line with the Guidelines (paragraph 5.8.3), in each of our assessments of the merger on local competition we assessed whether entry by new companies or expansion by existing ones might mitigate the initial effect of the merger on competition.

3. We consider the ease of entry and expansion because such countervailing factors may reduce or prevent an SLC, in which case we must consider whether such entry or expansion would be timely, likely and sufficient.[1]

4. Our Guidelines set out that we assess whether we would expect any entry and expansion to be:

   (a) *Timely:* whether entry or expansion can be 'sufficiently timely and sustained to constrain the merged firm'. The Guidelines note that: 'The Authorities may consider entry or expansion within less than two years as timely, but this is assessed on a case-by-case basis, depending on the characteristics and dynamics of the market, as well as on the specific capabilities of potential entrants'.[2]

   (b) *Likely:* whether firms have the 'ability and incentive to enter the market'.[3]

   (c) *Sufficient:* whether the scope or scale of entry or expansion would be sufficient to act as a competitive constraint.[4]

5. We have structured the appendix as follows:

   (a) We first consider the evidence of past entry.

   (b) We then look at the likelihood of expansion by an existing wholesaler (ie setting up an additional store).

   (c) We then look at the likelihood of entirely new entry into the wholesale market by someone not currently operating in the market.

   (d) Finally, we consider the likelihood of entry into three specific areas of concern.

Evidence of past entry/expansion

Evidence of past entry provided by Booker

6. Booker told us that entry at the local level was relatively common. Booker provided us with the following examples:

[1] Guidelines, paragraph 5.8.3.
[2] Guidelines, paragraph 5.8.11.
[3] Guidelines, paragraph 5.8.8.
[4] Guidelines, paragraph 5.8.10.

(a) Eastenders Cash & Carry Plc (Eastenders) in Croydon;

(b) N&B Foods Ltd (N&B Foods) in Exeter; and

(c) KaKa Cash & Carry (Kaka) in West Manchester.

7. Booker told us that N&B Foods opened its third site in Exeter in July 2012; that it offered both a collect and a delivery service to catering customers; and that it was expanding.

8. Booker provided us with detailed examples of larger-scale entry or expansion, which are set out below.

Restaurant Wholesale

9. Restaurant Wholesale was established in 2007 and offers both delivered and cash-and-carry services as a one-stop shop for caterers. It is a family-owned business and is part of the Seamark Plc group, which also operates factories, distribution and restaurants. Restaurant Wholesale has recently opened a second depot in Barking (East London), which has an area of 3,250 sq m.[5]

JJ Foodservice

10. JJ is a delivered/collect business operating within the wholesale grocery market. As well as offering customers a delivered service, since 2010 it has also provided facilities for customers to collect their purchases in store (the products are picked on a customer's behalf and the customer takes the product away in their own vehicle).[6]

11. Booker provided a case study of JJ, stating that:

> since being established in 1988, JJs [sic] has grown from a single site wholesaler with a 3,000 square foot warehouse in Hornsey to currently having 8 branches across the UK in Aston (West Midlands), Bristol, Basingstoke, Doncaster, Enfield, Leeds, Manchester and Sidcup. Within its first 10 years JJs had moved to a 41,000 square foot space in Tottenham, and has continued to expand ever since with the acquisition and opening of new trading sites and moves into counter collect services in 2008 and online ordering in 2009 (further details set out below). JJs is clearly in expansion mode and states that it is 'constantly looking for new areas to build or acquire new Branches', in particular 'near a city with a population of over 200,000' – immediate areas of interest for JJ are: (i) Acton, Brentford, Greenford, Hounslow, Southall; (ii) Battersea, Hammersmith, Richmond, Wimbledon; (iii) Cambridge; (iv) Nottingham; and (v) Edinburgh and Glasgow.

12. The case study also stated that JJ would seek to acquire a depot in any UK city with a population over 100,000.

---

[5] More information is available at www.restaurantwholesale.co.uk.
[6] More information is available at www.jjfoodservice.com.

Tesco

13. Tesco is the largest retailer in the UK, with a significant online and home delivery capability. Although not overtly targeting trade customers, its service and product range offers an extensive alternative supply source.

Asda

14. Asda has been operating its Asda Business online since 2009 but relaunched its website in October 2011 along with a corporate trade card, which offers 56 days of interest-free credit to cardholders.

15. The Asda Business offering is targeted mainly at small businesses, such as nursing homes and childcare nurseries. Asda offers a delivered service in addition to trade credit. In summer 2011, Asda developed this strategy further by offering a bespoke online website for childcare nurseries, allowing them to order online, choose pre-created lists of commonly-used nursery items or save and adapt their own weekly lists.

16. Asda Business offers a range of products which can be bought in bulk at wholesale prices. The product range includes fresh fruit and vegetables, fresh meat and fish, dairy, eggs and chilled, bakery, drinks, food cupboard goods, frozen, health and beauty, baby and toddler, laundry and household, pets and home and entertainment.

17. In 2012, Asda's parent company, Walmart, took a controlling stake in Massmart, a South African group that includes Jumbo Cash & Carry.

18. Booker also provided information on Amazon and Poundworld We have not reproduced this here as neither company appears to be in the specific markets we are considering (for example, we understand that Poundworld largely sells non-food items that are outside the market considered in this inquiry).

Evidence of past entry provided by third parties

19. Bestway stated that there had been no new entry in the last five years but that it knew of five or six businesses which had exited the market or changed hands. It saw no prospect of new entry in the near future at a national level, but said that this could occur at a local or specialist level (eg regional food importers)

20. [Wholesaler A] also stated that there had been no new entry recently (other than Asda). However, it believed that barriers to entry were not very high, as was shown by the presence of a number of small local wholesalers, and that ecommerce may have lowered barriers as it had no need for a large sales force.

21. The FWD told us that multiple grocers (eg Asda) had entered the market but it was hard for supermarkets to adjust their business model to do so as they were geared towards end-consumers rather than wholesale customers.

22. Brakes told us that many specialist players had expanded their range of products—for example, expanding from frozen goods to chilled goods. Brakes also viewed contract distributors, such as Kuehne and Nagel, DHL and Wincanton (before it exited the market) as competitors.

Our assessment

23. There is historical evidence of both entry and expansion at a local level. The evidence we have seen on national competitors expanding their existing businesses indicates that they tend to do so slowly and carefully, focusing on urban areas which are likely to provide the highest returns (taking into account the size and density of the population and the expected turnover and margin).

Likelihood of expansion by setting up a single additional store

24. The main barriers to setting up a single additional store are:

(a) availability of sites;

(b) regulatory barriers; and

(c) capital requirements.

25. A new entrant would initially look to buy or rent an existing store. Musgrave told us that 'Fundamentally, from a cash-and-carry point of view, you should be able to build a big box if you cannot buy one or rent one'.

Availability of sites

26. Musgrave told us that there was a reasonable amount of industrial space on the edge of various cities that should be available for a new entrant to build a store.

27. Booker told us that cash-and-carry warehouses, delivered wholesale depots and specialist wholesalers tended to be located out of town or on industrial estates. There was no commercial need to be located within a town centre and unlike prime retail sites of a suitable size, which were in short supply, there was an abundance of land which would be suitable for use by a grocery wholesaler as a cash-and-carry warehouse or depot.

Regulatory barriers

28. Booker told us that there were no specific regulatory regimes for the wholesale supply of grocery and related grocery products. In relation to planning permission, only B8 (wholesale) planning consent was required for Booker and Makro stores. Most other wholesalers, with the exception of Costco, which had A1 (retail) planning consent, also operated out of B8 premises.

29. According to Booker, recent changes to the planning regime in England had made it less onerous to obtain a suitable wholesale site:

(a) As of 6 April 2010, the erection, extension or alteration of an industrial building or warehouse, subject to certain conditions, was considered to be a permitted development and did not require an application for planning permission.

(b) In March 2012, the Government published the National Planning Policy Framework, which provided guidance to local planning authorities in relation to retail uses and sought to encourage retail development in main town centres over out-of-town locations. With this in mind, obtaining permission for change of use from A1 retail to B8 wholesale for large, out-of-town retail locations would be in line with this policy and should not be problematic.

Capital requirements

30. Several parties stated that a new entrant would need significant capital both to set up a new store and as working capital. The capital requirements could be categorized as follows:

(a) the upfront costs of setting up a new store, including:

(i) costs of initial store (this cost can be avoided to some extent by renting the building);

(ii) fitting out the store; and

(iii) acquiring the initial stock (without a good supplier relationship and the ability to purchase at a large scale a new entrant may be unlikely to secure credit or favourable purchasing terms from a supplier, and may be required to pay more than existing wholesalers);[7] and

(b) working capital requirements and the ability to withstand losses until the store became profitable.

31. Booker estimated that the capital expenditure required to establish a cash-and-carry store of approximately 3,250 sq m was in the region of £600,000 (about £370,000 to build the actual structure and about £250,000 to fit out the store). A store of this scale could achieve turnover of £7.1 million in its third year of operation. Assuming a net margin of approximately 9 per cent, Booker believed that the store would achieve payback in three years. Booker told us that these costs were for new entry at a new site and that many new entrants would need nothing more than a van, in which case entry costs were negligible.

32. Bestway estimated that the costs would be higher. It told us that a new entrant would need substantial capital to enter the market. Brakes told us that the entry cost for someone starting up locally was not very high and that suppliers could assist with access to the range of products that customers required.

Working capital requirements

33. [✂] For example, Musgrave told us that: ‘obviously to go from zero scale involves a certain amount of pain’ in terms of needing investment, scale and to keep prices low in order to build up a customer base.

34. The difficulty of recouping the initial investment would be reduced if we found that in a particular local area prices were higher due to failures in the competitive process.

35. Brakes told us that:

> To start up a wholesaler locally, you actually need very little capital expenditure. If you start with the easiest, which is the grocery wholesaler, you need an ambient store. Frankly, you do not need a very big one. Some of the smaller wholesalers with £10 million worth of sales have got 15,000 to 20,000 square feet warehouses, which would be rented at … £4-ish a square foot. So, you can take a rental on a depot,

---

[7] Smaller wholesalers can join buying groups to secure improved purchasing terms through the centralization of procurement functions, replicating some of the purchasing power of the large wholesalers.

> you can hire space in third party freezers in most parts of the country, so you are not taking on a big frozen store and fork lift trucks, again you can lease them or spot hire them.

Our assessment

36. We have seen evidence that successful national and regional operators can and do expand their operations. However, given the associated risks, the costs of setting up a store and the margins they can expect to earn, they will do so at a controlled rate.

37. The barriers to setting up a single local store are generally low, notwithstanding that significant capital is required. The availability of sites appears to be the main barrier to a new entrant and this is likely to differ substantially across local areas.

38. Possible entrants at a local level would be likely to include national wholesalers as well as regional wholesalers expanding their geographic coverage. In addition, specialist wholesalers may be able to enter local markets more easily, specifically in order to target any particular products whose price has risen as a result of the merger.

Likelihood of new entry

39. We next considered the additional barriers faced by an entirely new entrant to the market.

40. The main barriers to a new entrant, in addition to the barriers to setting up a single additional store described previously, are:

    (a) access to customers/reputation;

    (b) sourcing goods on favourable terms, which is largely dependent on the importance of a strong supplier relationship, in order to secure favourable purchasing terms (credit and lower prices); and

    (c) creating a distribution system.

Access to customers/reputation

41. Depending on the identity of the new entrant, it is likely that it would take some time (and considerable expense) to develop a sufficiently large customer base. Some potential entrants in related markets (such as large retailers) may find this easier.

42. Musgrave told us that the real barrier was the need for scale and then the investment needed to ramp up a marketing campaign to back it up and to get a reputation in the marketplace.

Sourcing goods on favourable terms

43. A new entrant would need to develop strong supplier relationships, in order to secure favourable purchasing terms. A supplier is likely to consider the scale of purchases the entrant is willing to commit to as well as its financial resources in determining the terms it provides to the new entrant in the absence of a trading history.

44. Booker told us that a new entrant did not need to be a large size in order to compete, as all wholesalers could access the purchasing terms of buying groups (such as Landmark and Today's) provided that they could satisfy the membership criteria. The conditions of membership of a buying group were not onerous. Consequently, the ability to secure competitive terms of supply should not present a significant barrier to entry.

45. Booker also said that there were no licensing requirements or supplier exclusivity that would constrain new entry.

Creating a distribution system

46. This is likely to be the largest barrier to a new entrant given the importance of a distribution system to a wholesale business model and the costs associated with establishing a system on a large scale.

47. One of the reasons for Makro's failure to develop a delivered offering appears to be the lack of an adequate distribution network.

Possible new entrants

48. Booker told us that wholesalers to small and medium-sized enterprises were not the only UK businesses that were able to compete in the grocery wholesaling sector. Many operators in adjacent markets—in particular, many retailers—possessed a number of capabilities that would allow them to also compete in the grocery wholesaling sector:

    (a) good supply chain management;

    (b) an ability to buy at scale and to obtain good terms from suppliers;

    (c) a network of trading locations/depots and an efficient logistics operation; and

    (d) a reputation for reliability and good customer service.

49. Booker told us that companies in adjacent segments could easily enter the market by leveraging existing assets and capabilities without incurring excessive costs, and there were examples of this happening, such as Asda Business, Amazon and Poundworld. However, the supermarkets' current operations (small pack sizes and retail store format aimed at end-consumers) meant that there would be costs involved in them actively moving into the wholesale market.

Supermarkets

50. We considered the extent to which supermarkets may face lower barriers than other new entrants to the market as they already have certain advantages in setting up as a new entrant, for example existing large distribution systems, established sources of supply, established customer bases and the required financial scale.

51. [A large grocery retailer] acknowledged that it would be possible for it to set up a wholesale distribution network and that a large supermarket operator had many of the fundamentals already in place (such as the distribution network and stores). However, it told us that it would not be straightforward (for example, the requirement to sell produce in different pack sizes) and that it currently had no plans to enter the wholesale market.

52. Brakes thought that supermarkets had always been in the market to some extent—more than 10 per cent of the market had always been supplied by supermarkets even though pack sizes were different. Brakes also noted that supermarket delivery services had increased recently.

53. The retail grocery market appears to be moving more towards a delivered model. Several supermarkets (such as Tesco, Asda and Waitrose), as well as other companies (such as Ocado), now offer delivered services. This model would be an easier route for a retailer aiming to enter the wholesale market than the traditional cash-and-carry format.

54. We note that it is possible for supermarkets to take an increasing share of the market without actually becoming wholesalers. For example, it is currently possible for supermarkets to sell to caterers and retailers within their current store formats.

Our assessment

55. We did not identify any barriers to expansion by delivered operators. We note that the range of other routes to market (and in particular the growth of ecommerce) may increase the ability of delivered wholesalers to access new customers with limited requirements for new capital expenditure.

56. The barriers to entering the market at a national level are substantially higher than for an existing player in the market opening a single additional store. The most likely entrant into the wholesale market appears to be an existing wholesaler or retailer.

Likelihood of new entry into or expansion in Ipswich, Norwich and Poole

57. In this section, we consider the likelihood of expansion or new entry in three areas where the filtering process in our local analysis suggested that it might be useful to do so. (See paragraphs 8.59 to 8.65 in the main report for further detail).

58. We have considered evidence provided by Booker in relation to the site availability and likely customer demand in Ipswich, Norwich and Poole. In addition, we have taken into account the views of third parties of the likely barriers of entry into or expansion in the three local markets.

Ipswich

59. Booker initially identified five available sites and subsequently indentified a further four sites in Ipswich that it argued would be cheaper and more suitable for use by a new wholesale entrant than the present Makro site (see Table 1).

TABLE 1 **Available sites in Ipswich***

Site	*Distance to Makro store (miles)*	*Size (sq m)*	*Type of site*
Initial sites identified by Booker			
Baird Close, Hadleigh Road Industrial Estate	8.3	2,787	Existing building
Straight Road, Manningtree	9.1	2,408	Existing building
Olympus Close	10.1	1,970	Existing building
Chapel Lane, Great Blakenham	11.1	2,198	Existing building
Chapel Lane, Great Blakenham	11.1	4,209	Existing building
Further sites identified by Booker			
Ransomes Europark	4.8	4,856–17,401	Existing building
London Road	2.9	4,047–14,164	Existing building
Harris Business Park, Hadleigh Road	0.5	74,867	Existing building
Orwell Crossing, Nacton	7.7	64,750	Existing building

Source: Booker.

*Booker identified available sites in each of the 18 local markets where we have performed detailed local analysis. The search criteria applied require each site to have A1 retail or B8 wholesale planning permission, a minimum area of 1,858 sq m, cost less than £55 per sq m (£140 per sq m in London) and approximately 30 parking spaces. In addition, each site was not currently used as for grocery wholesaling and was approximately 10 miles from the Makro store (approximately 5 miles in London).

60. [✂]

61. [✂]

62. [✂], caterer and PBU demand within 30 minutes, 45 minutes and 60 minutes of the Booker stores located in each of the 18 local markets where we have performed detailed local analysis (see Table 2).

TABLE 2 **Booker demand estimates**

			£ million
Booker store		*Demand*	
	30 minutes	*45 minutes*	*60 minutes*
Greenwich*	[✂]	[✂]	[✂]
Reading	[✂]	[✂]	[✂]
Chester*	[✂]	[✂]	[✂]
Leicester	[✂]	[✂]	[✂]
Blackburn*	[✂]	[✂]	[✂]
Eastleigh*	[✂]	[✂]	[✂]
Bristol	[✂]	[✂]	[✂]
Stoke	[✂]	[✂]	[✂]
Nottingham	[✂]	[✂]	[✂]
Longstone*	[✂]	[✂]	[✂]
Bournemouth*	[✂]	[✂]	[✂]
Stockton	[✂]	[✂]	[✂]
Exeter	[✂]	[✂]	[✂]
Southend*	[✂]	[✂]	[✂]
Norwich	[✂]	[✂]	[✂]
Hull	[✂]	[✂]	[✂]
Ipswich	[✂]	[✂]	[✂]
Aberdeen	[✂]	[✂]	[✂]

Source: Booker.

*These Booker stores are the closest to the corresponding Makro store in the local market. For example, Booker's Bournemouth store is 15 km away from Makro's Poole store and is therefore considered as residing in the same local market.

Norwich

63. Booker initially identified four available sites and subsequently indentified a further three sites in Norwich that it argued would be cheaper and more suitable for use by a new wholesale entrant than the present Makro site (see Table 3).

TABLE 3 **Available sites in Norwich**

Site	*Distance to Makro store (miles)*	*Size (sq m)*	*Type of site*
Initial sites identified by Booker			
Former Yodel Unit, Vulcan Road South	5.7	2,850	Existing building
Unit 4, Vulcan Road North	6.1	2,189	Existing building
Whiffler Road Industrial Estate	6.7	2,341	Existing building
Document House, Barnard Road	10.0	4,484	Existing building
Further sites identified by Booker			
Salhouse Business Park	3.5	1,858-9,290	Design and build
Broadland Business Park	6.5	8,094-11,331	Design and build
Longwater Park	6.9	4,047-84,984	Existing building

Source: Booker.

64. [✂][8]

65. Parfetts told us that it was not aware of any local barriers in relation to opening a new store in Norwich.

Poole

66. Booker initially identified five available sites and subsequently indentified a further four sites in Poole that would be cheaper and more suitable for use by a new wholesale entrant than the present Makro site (see Table 4).

TABLE 4 **Available sites in Poole**

Site	*Distance to Makro store (miles)*	*Size (sq m)*	*Type of site*
Initial sites identified by Booker			
Nuffield Road Industrial Estate	1.2	2,787	New build by developer
Poole Trade Park	2.5	Various	New build by developer
Magna Business Park	5.7	Various	New build by developer
Holton Heath Trading Park	5.7	1,858	New build by developer
Christchurch Business Park	14.0	Various	New build by developer
Further sites identified by Booker			
Unit 2, Cromwell Road, Southbourne	9.7	2,644	Existing building
Unit E, Fleets Corner, Waterloo Road	1.0	1,779	Existing building
Former Buildbase Unit, P6 & P7 Kinson Pottery Estate	3.0	1,779	Existing building
Mannings Heath Works, Mannings Heath Road	3.2	1,992	Existing building

Source: Booker.

67. [✂]

68. Parfetts told us that it was not aware of any local barriers in relation to opening a new store in Poole.

[8] [✂]

Glossary

3663	BFS Group Limited, trading as 3663, a national **delivered grocery and foodservice wholesaler**.
A1 open planning consent	Planning consent which allows the retail sale of any goods, including **groceries**.
ACS	The Association of Convenience Stores.
Act	Enterprise Act 2002.
Aldi	Aldi Stores Limited, a **LAD**.
AlixPartners	A global management consultancy business.
Allied Bakeries	A UK-based **supplier** of bread and other morning foods.
Amazon	Amazon.co.uk, an online **retailer**.
Ambient grocery line	Food which can be stored for long periods at ambient temperature, ie without refrigeration.
AMPM	AMPM Wholesale, a local **cash-and-carry wholesaler**.
Anglia Culinary Suppliers	Anglia Culinary Suppliers Limited, a local **delivered grocery and foodservice wholesaler**.
Appleby Westward	Appleby Westward Group Limited, the **Spar** retail distribution centre in the West Country.
Asda	Asda Stores Limited, a **grocery retailer** and a subsidiary of Wal-Mart Stores Inc.
Asda Business	An online service from **Asda** which provides a targeted retail sales channel focused on business customers.
BA Cash & Carry	BA Cash and Carry (Cardiff) Limited and BA Cash and Carry (Swansea) Limited, a regional **cash-and-carry wholesaler**.
Batleys	Batleys Limited, a **cash-and-carry wholesaler** owned by **Bestway**.
Bestway	Bestway Cash & Carry Limited, a national **cash-and-carry wholesaler**.
Blakemore	A F Blakemore & Son Limited, a regional **cash-and-carry wholesaler** with a delivered grocery and foodservice arm.
Booker	Booker Limited, a national **cash-and-carry wholesaler** operating in the UK.
Brakes	Brake Bros Limited, a national **delivered grocery and foodservice wholesaler**.
Budgens	A **symbol group** owned by **Musgrave** Retail Partners GB.

Bunzl Catering	Bunzl UK Limited, trading as Bunzl Catering Supplies, a specialist **wholesaler** specializing in supplying the catering industry.
The Buyco	A company jointly and equally owned by **Palmer and Harvey** and **Costcutter**, the formation of which was announced in March 2013.
Buying group	Affiliation of several **grocery wholesaler**s established to obtain more favourable terms from **supplier**s than each **wholesaler** could achieve individually.
BWS	Beers, wines and spirits.
Cash-and-carry wholesaler	A **grocery wholesaler** that supplies business customers such as retailers, **caterer**s and owners of small businesses.
Castle Howell Foods	Castell Howell Foods Limited, a regional **delivered grocery and foodservice wholesaler**.
Caterer	A person, shop or business that provides and serves food (eg a pub, restaurant, cafe).
Caterforce	Caterforce Limited, a **buying group** consisting of independent foodservice **wholesaler**s.
CC	Competition Commission.
CEO	Chief Executive Officer.
Chef Direct	A delivered food service arm of **Booker** that operates from a distribution centre in Didcot.
CJ Lang & Son	C J Lang & Son Limited, one of Scotland's largest independent retailing and distribution companies. It sold its cash-and-carry and food services divisions to **Batleys** in 2010.
Classic Drinks	A specialist on-trade **wholesaler**, supplying **BWS** and soft drinks to pubs, bars and licensed premises. It was acquired by **Booker** in October 2010.
Coastline Produce Foodservice	A regional **delivered grocery and foodservice wholesaler**.
Coca-Cola	The Coca-Cola Company, a **supplier** of soft drinks.
Confex	Confex Limited, a national **buying group**.
Convenience goods	Everyday essential items, including food, drinks, newspapers/ magazines and confectionery.
Convenience store	A grocery store smaller than 280 sq metres that sells a range of **groceries** (ie not **specialist grocery retailers**). **IGD** defines a convenience store as a store that stocks a range of products from at least seven product categories.

Convenience store operator	All operators of **convenience store**s, including **large grocery retailer**s, regional **grocery retailer**s, **symbol group retailer**s and **non-affiliated independent** convenience store operators.
Coors	Molson Coors Brewing Company, a **supplier** and distributor of beers and lagers.
Costco	Costco Wholesale UK Limited, a national **cash-and-carry wholesaler**.
Costcutter	Costcutter Supermarkets Group Limited, operator of the Costcutter **symbol group**.
Country Range	Country Range Group, a **buying group** specializing in grocery and foodservice.
Courtney & Nelson	Courtney & Nelson Limited, a national **specialist wholesaler** specializing in confectionery.
Creed Foodservice	A **delivered grocery and foodservice wholesaler**.
CTN	Confectioner, tobacconist and newsagent.
Dairy Crest	Dairy Crest Group plc, a **supplier** of diary goods.
Dark store	A store from which Internet orders are fulfilled. It is staffed by pickers and members of the public are not admitted.
DeeBee's	D B Ramsden Limited, a local **delivered grocery and foodservice wholesaler**.
Delivered grocery and foodservice wholesaler	A **grocery wholesaler** that delivers directly to catering businesses and independent **retailer**s.
Delivered wholesaler	A **grocery wholesaler** that primarily supplies and delivers to customers' premises.
Dhamecha	Dhamecha Foods Limited, a regional **cash-and-carry wholesaler**.
EBITDA	Earnings before interest, taxation, depreciation and amortization.
East End Foods	East End Foods plc, a regional **cash-and-carry wholesaler**.
East Enders Cash and Carry	Eastenders Cash & Carry plc, a regional **cash-and-carry wholesaler**.
Euro Shopper	A discounted brand of **groceries** developed and marketed by AMS Sourcing BV and sold in the UK by **Booker**.
Fairfax Meadow	A national **specialist wholesaler** specializing in meat.
Fairway Foodservice	Fairway Foodservice plc, a **buying group** specializing in grocery and foodservice.

Fascia	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).
FCH	Food service, catering and hospitality.
FMCG	Fast moving consumer goods.
Food Partners	Adelie Foods Group Limited, a **supplier** of 'food to go' goods.
Forecourts	**Convenience store**s located at petrol filling stations.
Forward Wholesale	Forward Wholesale Limited, a local **delivered grocery and foodservice wholesaler**.
Four largest grocery retailers	**Asda**, **Morrisons**, **Sainsbury's** and **Tesco**.
Fresh Island Foods	Fresh Island Foods Limited, a **delivered grocery and foodservice wholesaler**.
Frozen food retailer	**Grocery retailer** that specializes in the sale of frozen foods and generally carries a limited range of other grocery products.
FWD	Federation of Wholesale Distributors, a member organization for UK grocery and foodservice **wholesaler**s.
GfK	GfK NOP, a market research company.
Groceries	Food (other than that sold for consumption in the store), pet food, drinks (alcoholic and non-alcoholic), cleaning products, toiletries and household goods; and excluding petrol, clothing, DIY products, financial services, pharmaceuticals, newspapers, magazines, greetings cards, CDs, DVDs, video and audio tapes, toys, plants, flowers, perfumes, cosmetics, electrical appliances, kitchen hardware, gardening equipment, books, tobacco and tobacco products.
Grocery retailer	A firm selling **groceries** at a retail level, being either a **supermarket**, a **convenience store** or a **specialist grocery retailer**.
Grocery store	A retail store, a significant proportion of which is devoted to the sale of **groceries**.
Grocery wholesaler	A seller of **groceries** at a wholesale level, usually to **convenience store**s.
GUPPI	Gross Upward Pricing Pressure Index. This indicator measures the strength of a company's ability, once the merger is complete, to raise its prices due to the lowering of competition. The GUPPI is produced by using a mixture of current margins and estimated diversion ratios to estimate the value of sales that the newly merged business can recapture. The formula used is GUPPI = d12 * m2 * (p2/p1). D12 is the diversion ratio of sale lost from party 1 to party 2 and m2 is the margin of party 2 recapturing the lost sales. P1 and p2 would be the prices of a sale accordingly. We assume p2/p1 to be equal to 1, as the considered goods are homogenous.

Hancock Cash and Carry	Hancock Cash and Carry Limited, a national **specialist whole-saler** specializing in confectionery.
Harris International Marketing	A market research company.
Harvest Fine Foods	Harvest Fine Foods Limited, a **delivered grocery and foodservice wholesaler**.
HoReCa	Hotel, Restaurant and Catering companies (a segment of **whole-salers**' market). (Horeca is also a brand name of a line of **Makro** products.)
HT & Co	HT & Co (Drinks) Limited, a national **specialist wholesaler** specializing in **BWS**.
Hyperama	Hyperama Wholesale, a regional **cash-and-carry wholesaler**.
IDBR	Inter-Departmental Business Register, an **ONS** survey.
IGD	Institute of Grocery Distribution, a research organization focusing on the UK grocery industry.
IMAS	A company specializing in market research.
Independent, non-affiliated convenience stores	See **non-affiliated independents**.
Isochrone	A line joining points of equal time (eg travel time) from a given centre.
James Hall	James Hall & Co Limited, a **delivered grocery and foodservice wholesaler** and the **Spar** retail distribution centre in the North of England.
JJ	JJ Food Service Limited, a **delivered grocery and foodservice wholesaler** with a collection capability for customers.
Jumbo Cash and Carry	Jumbo Importers Limited, a **cash-and-carry wholesaler** that specializes in the supply of South African food.
JW Filshill	J W Filshill Limited, a **delivered grocery and foodservice wholesaler**.
KaKa Cash & Carry	The trading name of Midlands Cash and Carry Limited, a regional **cash-and-carry wholesaler**.
Kerry Group	Kerry Group plc, a **supplier** of chilled foods.
KPMG	KPMG LLP, a global audit, tax and advisory business.
KVI	Key value item.
LAD	Limited assortment discounter (eg **Aldi**, **Lidl**).

Lancashire Foods	Lancashire Foods Limited, a national **specialist wholesaler** specializing in soft drinks.
Landmark	Landmark Wholesale Limited, a **buying group** acting on behalf of **delivered wholesaler**s.
Large grocery retailer	**Grocery retailer** with operations throughout Great Britain and, in some cases, Northern Ireland which carries a full range of grocery products and has an integrated grocery wholesaling function that purchases directly from grocery **supplier**s.
Lidl	Lidl UK GmbH, a **LAD**.
Londis	The **symbol group** operated by Londis (Holdings) Limited and part of the **Musgrave** Group plc.
LPA	Local Planning Authority—a body (usually a borough council or district council) that is empowered to exercise planning functions for a particular area.
LWC	LWC Drinks Limited, a national **specialist wholesaler** specializing in **BWS** and soft drinks for the off-trade and on-trade.
Lynton Exports	A local **delivered grocery and foodservice wholesaler**.
Mace	A **symbol group** owned by **Palmer and Harvey** in the UK.
Makro	Makro Holding Limited, a national **cash-and-carry wholesaler**.
Matthew Clark Wholesale	Matthew Clark Wholesale Limited, a national **specialist wholesaler** that specializes in the supply of drinks to on-trade premises.
MCCI	Metro Cash & Carry International Holding BV, part of the **Metro** holding company.
McKinsey	McKinsey & Company, a global management consultancy business.
Menzies Distribution	A division of John Menzies plc, a national **specialist wholesaler** specializing in newspapers and magazines.
Metro	METRO AG is the holding company for several wholesale and retail brands, including **Makro**, in 32 countries in Europe, Africa and Asia.
Mid-sized grocery store	**Grocery store** with a net sales area of between 280 and 1,000–2,000 sq metres.
Morrisons	Wm Morrison Supermarkets plc, a **grocery retailer**.
Muller Wiseman Dairies	A **supplier** of dairy goods.
Musgrave	Musgrave Group plc, parent company of **grocery wholesaler**s and **symbol group**s, including **Budgens** and **Londis** in the UK and **Centra** and **Supervalu** in Northern Ireland and the Republic of Ireland.

N&B Foods	N&B Foods Limited, a local **delivered grocery and foodservice wholesaler**.
Nisa or Nisa-Today's	Nisa Retail Limited (formerly Nisa-Today's (Holdings) Limited), both a **symbol group** and a **buying group**.
Non-affiliated independents	**Convenience store**s that are independent (ie are not owned by a **supermarket chain** and do not belong to a **symbol group**).
Non-grocery retailing	The retailing of products outside our definition of **groceries**.
NPV	Net present value.
OC&C Strategy Consultants	A global management consultancy business.
Ocado	Ocado Group Limited, a grocery delivery company.
OFT	Office of Fair Trading.
One-stop shopping	A type of shopping in which a large range of products is purchased at the same time and in the same store, rather than on different shopping trips or from different stores.
ONS	Office for National Statistics.
Operating margin	The ratio of operating profit (profit before interest, tax and dividends) divided by turnover.
Other traders	Customers of **wholesaler**s that are not **retailer**s or **caterer**s/food service operators. Examples are hairdressers and other personal service companies, crafts/tradespeople, healthcare and office-based services.
Own-brand or own-label	Range of products carrying a **retailer**'s brand/name and produced to that **retailer**'s specifications.
Palmer and Harvey	Palmer & Harvey McLane Limited, a national **delivered grocery and foodservice wholesaler**.
Parfetts	A G Parfett & Sons Limited, a regional **cash-and-carry wholesaler**.
PBU	Personal and business users.
Peter's Food Service	Peter's Food Service Limited, a **supplier** of chilled food goods.
Poundworld	Poundworld Retail Limited, a **LAD**.
PQRS	Price, quality, range and service (certain components of the **retail offer**).
Premier	The **symbol group** operated by **Booker**.
QRS	Quality, range and service, certain non-price components of the **retail offer**.

Restaurant Wholesale	A **delivered and cash-and-carry wholesale** service for **caterer**s.
Retailer	A person, shop or business that sells goods to the public.
Retail offer	The ‘product’ supplied by **grocery retailer**s to consumers, being a combination of **PQRS**, as well as other more long-term store characteristics, such as size and location.
Reynolds Catering Supplies	Reynolds CS Limited, a national **specialist wholesaler** specializing in fruit, vegetables and dairy.
Ritter-Courivaud	Ritter Courivaud Limited, a specialist fine foods **supplier** to restaurants, hotels and **caterer**s. It was acquired by **Booker** in October 2010.
Rural area	Any area not defined as an **urban area**.
Sainsbury’s	J Sainsbury plc, a **grocery retailer**.
Samworth Brothers	A **supplier** of chilled food products.
SCOs	Small companies and offices (sometimes used to mean services, companies and offices).
Seamark Group	Seamark Group PLC, a UK importer of seafood.
Secondary or top-up shopping	Shopping trips to buy a few grocery items, in order to ‘top up’ or complement major purchases of **groceries**.
Section 106 agreement	Agreement between an applicant for planning permission and **LPA** made under section 106 of the Town and Country Planning Act 1990, under which planning permission is granted subject to conditions that may restrict development or use of the land; require operations or activities to be carried out in, on, under or over the land; require the land to be used in any specified way; or require payments to be made to the **LPA**, either in a single sum or periodically.
Select Cash & Carry	Select Cash & Carry Limited, a local **cash-and-carry wholesaler**.
SKU	Stock-keeping unit.
SLC	Substantial lessening of competition.
SMEs	Small and medium-sized enterprises.
Smiths News	Smiths News PLC, a national **specialist wholesaler** specializing in newspapers and magazines.
Spar	Spar (UK) Limited, a **symbol group** owned by five wholesale members. Each operates in a distinct territory, with exclusive rights to supply independently-owned Spar stores and to recruit new members within that area. The wholesale members include: **CJ Lang & Son**, Henderson Wholesale Limited, **James Hall**, **Blakemore** and **Appleby Westward**.

Specialist grocery retailers	**Grocery retailer**s that specialize in the sale of one type of product and stock a range from less than seven product categories (eg bakers, butchers, fishmongers, greengrocers or off-licences).
Specialist wholesalers	**Grocery wholesaler**s that specialize in the sale of one type of product (eg meat, fish, vegetables, confectionery or **BWS**).
SSNIP	Small but significant and non-transitory increase in price, a concept used in market definition.
Staples UK	A subsidiary of Staples Inc. An office supply chain store with headquarters in North America.
Sterling Supergroup	Sterling Supergroup Limited, a national **buying group**.
Sugro UK	Sugro UK Limited, a national **buying group**.
Supermarket	Store where the space devoted to the retail sale of **groceries** exceeds 280 sq metres and which stocks a range of products from more than 15 product categories.
Supermarket chain	A **grocery retailer** that predominantly operates **supermarket**s (eg **Asda**, **Morrisons**, **Sainsbury's**, **Tesco**).
Supervalu	Supervalu Inc, a **grocery retailer**, part of the **Musgrave** group operating in the Republic of Ireland and Northern Ireland.
Supplier	A manufacturer or **wholesaler** which sells products directly to a **grocery retailer**.
Supplier price	The price paid by the retailer to its **supplier**.
Sutherland Brothers	A Scottish **delivered grocery and foodservice wholesaler**.
Symbol group	A group of **convenience store**s, some of which may operate under a franchise arrangement, and trade under a common **fascia** (symbol) (eg **Spar**, **Costcutter**).
Symbol group retailer	**Grocery retailer**s which operate stores under a common **fascia** (or symbol) and undertake common marketing activities. Stores within a **symbol group** may be independently owned and use the common **fascia** under a franchise or membership agreement, or alternatively, may be directly owned by the **symbol group** or affiliated **wholesaler**s. **Symbol group** retailers generally source supplies through affiliated **wholesaler**s. The central organization of the **symbol group** undertakes joint marketing and advertising, co-ordinates promotions, arranges for the provision of own-label products using the **symbol group** brand, and supplies support services (eg staff training, financial management and merchandising).
Tesco	Tesco plc, a **grocery retailer.**
Tesco.com	**Tesco**'s online shopping service.
Tesco Express	**Convenience store** chain owned by **Tesco**.

Thames Cash and Carry	Thames Cash and Carry Limited, a local **cash-and-carry wholesaler**.
Thomas Ridley	Thomas Ridley & Son Limited, a **delivered grocery and foodservice wholesaler**.
Today's	Today's (Holdings) Limited, a **buying group** acting on behalf of **delivered wholesaler**s and retailers.
Tradeteam	A national **specialist wholesaler** specializing in **BWS**.
TRS Cash & Carry	A regional **cash-and-carry wholesaler**.
United Wholesale	United Wholesale Grocers Limited, a regional **cash-and-carry wholesaler**.
Urban area	An area comprising a settlement with a population of at least 10,000 (2001 Census figures).
Viking Direct	The trading name for Office Depot International (UK) Limited.
Waitrose	A **grocery retailer**.
Walmart	Wal-Mart Stores Inc, a multinational retail corporation that owns the UK **grocery retailer Asda**.
Warburtons	A supplier of bread and other bakery products.
Waverley	Waverley TBS Limited, a national **specialist wholesaler** that specializes in the supply of drinks to on-trade premises. Currently in administration.
Westone Wholesale	A **specialist wholesaler** specializing in **BWS** and confectionery.
Wholesaler	A person, shop or business which buys and sells goods in large quantities to business customers.
Wincanton	A UK transport and logistics business.
Wing Yip	W Wing Yip plc, a regional **cash-and-carry wholesaler** specializing in Chinese and oriental foods.
Wold Fayre	Wold Fayre Foodservice Limited, a local **delivered grocery and foodservice wholesaler**.