

## **POUNDLAND/99P STORES MERGER INQUIRY**

### **Summary of hearing with Savers Health and Beauty Limited on 24 June 2015**

#### **Background**

1. Savers Health and Beauty Limited (Savers) told us that it was part of the A S Watson Group and was a value general merchandise (VGM) retailer with a multi price point business model. It was founded in 1988 in Darlington as a small chain of ten stores and now had 333 stores. Savers predominantly stocked household, health and beauty products and in some larger stores also stocked other product types, normally pet food and some general merchandise. Savers' stores were mainly in 'secondary' (ie not prime) high street locations and were normally small in size, at about 2,000 to 2,500 ft<sup>2</sup>.
2. Savers said that its strategy was to aim to offer customers the best value products available on the high street. As Savers was able more easily to find suitable high street locations with affordable rents due to the size of its stores, it believed this gave it an advantage over other retailers. It also said that its focus on customer service and a specialist range of household, health and beauty products gave it a competitive advantage. It felt that in contrast to other VGM retailers, it bought new lines of products from manufacturers, in addition to those that were about to be de-listed.
3. Savers said that its stock was made up of nearly 100% branded products and that it mainly bought from UK suppliers. [REDACTED], but emphasised the good value of its broad range of products to customers. Savers thought that customers no longer had any reservations about visiting discounters.
4. Savers said that its turnover would be close to £300 million this year and that it had experienced good growth in average spend, number of items per basket and number of transactions during the last five years. [REDACTED]

#### **The transaction and effects of the merger**

5. Savers was not aware that 99p Stores was available for purchase until press reports on the transaction began, and that it had not previously considered purchasing 99p Stores. [REDACTED]

6. Savers had no concerns about the merger between Poundland and 99p Stores and felt neutral about whether it proceeded. Savers did not anticipate a change in the competitive dynamics of the high street, should the merger go ahead.

## **Savers' offering**

7. Savers said that its approach was very much price-led and that it was firmly focused on its household, health and, to a lesser extent, beauty product ranges. It said that its strategy was not to buy solely end-of-range products, but that it also bought new products and had a good sense for the products its customers wanted. If sales volumes were low for a particular product, then it would discontinue this line over time. The range of products it stocked did not vary significantly on a seasonal basis.
8. Savers operated a simple and low cost model which meant that it largely offered the same product range in all of its stores, regardless of their size. One or two product lines per month would be added as a result of feedback from store managers. Its prices and promotions were decided at a national level [✂].
9. Savers said that tailoring the stock to its stores by location would add complexity and costs which it did not want to have to pass on to customers. To offer more localised product ranges would require a larger head office and distribution centre and probably bigger stores with higher rents.
10. Savers operated a mystery shopper system to assess customer service and aimed to provide a uniformly good level of service across its stores and to become known for this. Its opening hours were normally set in relation to other stores in the area.
11. Savers said that it decided to expand its range to include pet food and general merchandise as it felt that customers to its larger stores would welcome a more diverse offering. The limitations of its distribution centre and its focus on household, health and beauty product ranges, which it intended to continue, meant it was unlikely to begin stocking a lot more general merchandise.
12. [✂]

## **Competition**

13. Savers regarded any retailer that sold the same goods as itself as a competitor in general [✂]. Other competitors, including supermarkets, had a different customer proposition. Savers thought the opening of a competitor's

store in the same location as one of its stores could sometimes have a beneficial effect as it could increase customer footfall in that location. In particular, it thought that the decision of large supermarkets and other national chains to open premises in high street locations (typically convenience stores) had rejuvenated the high street, increasing footfall for independent retailers.

14. Savers said that its stores tended to be found in similar locations to Poundland and 99p Stores and that it thought these companies operated a similar rental model to it. It said that whilst the opening of other VGM retailers in the same location as its store could have a detrimental impact on sales in the short term, it would also encourage customers to visit the location as they knew there would be a good selection of discount stores available.
15. Savers felt that its stores' smaller size and simplicity of its offer were a source of differentiation. The efficiency and simplicity of the shopping experience encouraged customers to visit them rather than the larger stores of some of its competitors [REDACTED].
16. Savers saw both Poundland and 99p Stores as competitors as there was some overlap in the product ranges each offered, although it was not aware of the extent of this [REDACTED]. Savers thought that Poundland and 99p Stores offered narrower product ranges and that Savers offered better value to customers overall. It said that it had not changed its strategy or range in order to respond to Poundland and 99p Stores' offering. [REDACTED]
17. Savers had not seen any evidence of Poundland or 99p Stores reacting to its decisions on price or product ranges and it did not think either were in a position to do this as they were single price point retailers.
18. Savers saw high street branches of supermarkets more as a driver for footfall than as competition because Savers' health and beauty ranges were not a key focus for the supermarkets in these locations. Savers was not aware of Tesco's brand outlets initiative but it thought that supermarkets did engage in discounting campaigns from time to time.
19. Savers said that it would never opt against opening a store because there were too many competitors within an area. It was more likely to move into a high street where there was a strong retail presence, as it was not a destination retailer. [REDACTED] It would normally want to carry out more detailed analysis on locations where there were no competitors.

## Customer behaviour

20. Savers thought customers were now more price aware and this had caused a change in shopping habits. Savers thought that customers were regularly checking the prices of goods online and were now shopping more regularly, often to 'top-up' a larger internet shop. It thought that supermarkets had been able to take advantage of this behaviour to some extent with their high street and convenience shops.
21. Savers felt that the extent to which customers would consider the relative unit value of a product was dependent on the individual customer and their desire to pay the lowest possible price. Savers thought that one of the attractions of Poundland and 99p Stores for customers was that these shops gave them a clear idea of how many products they could purchase for a given amount of money, even if some of these products were available for less elsewhere.
22. Savers said it did not carry out any direct research into the type of customers who shopped at its stores but it had observed that customers appeared to come from a range of different backgrounds. Savers thought that customers who visited its stores tended either to live or work locally.

## Entry and expansion

23. When seeking to expand, Savers' approach would be to look at [✂].
24. [✂]
25. Savers felt that there were significant opportunities for new entrants to the market, even for those starting with only one or no retail premises. Its view was that most VGM retailers operating today originally started with one store. Savers felt that there were still a lot of vacant retail units available for new entrants. For entrepreneurs starting from a very low cost base, one viable strategy would be to build a brand online initially, before acquiring a physical store.
26. Savers said it understood the view that some new entrants might find it difficult to buy products at a competitive price due to issues of scale but that such difficulties could be overcome.