

POUNDLAND/99P STORES MERGER INQUIRY

Summary of hearing with Wilko Retail on 2 July 2015

Background

1. Wilko Retail (Wilko) told us that it was founded in the Midlands in 1930 and had since then grown its estate to around 375 stores. The company employed over 20,000 people and operated stores sized between 3,500 to around 40,000 ft². The majority of its stores were between 16,000 and 22,000 ft². Wilko said that it was currently focusing on its growing online business and was developing a smaller format of stores, sized between 5,000 and 8,000 ft². It expected to open these stores in major cities across the country over the next three to five years.
2. Wilko stocked 12 major categories of home and garden products across a wide range of price points. This meant that its range of competitors was also very wide and varied.
3. Wilko did not focus on the £1/99p price points specifically but focused on creating an overall value perception among customers. Wilko said that, similar to other retailers, it tended to offer more fast moving consumer goods (FMCG) at the £1 price point than other product types. Wilko said that there was no difference in the way it presented products priced at £1/99p compared with any others but that it highlighted its 'Stay Low' range across product categories that it considered offered permanent good value. It said that this was a national range but that whether or not a store offered the full range would depend on the store's size.
4. Wilko said that its own-label performance was growing and that part of its strategy was to continue to focus on its own label as it believed this represented a point of differentiation against its competitors. The share of its own-label products had grown by [X] percentage points to [X]% in the last [X] months and it had ambitions to grow this further. It said that, as with all retailers, its FMCG categories contained a much greater proportion of branded goods.
5. Wilko said that over the last few years it had seen a changing retail proposition, particularly on the high street. It said that in the last few years it had seen a decline in sales of 1% across the piece. Wilko said that in addition

to the challenging economic climate and low disposable incomes, competition had been strong from all other retailers, including grocers, specialist retailers and discounters. Wilko said it was currently seeing flat sales but it believed it could increase sales both through store growth and increasing the focus on 'Stay Low' products in its stores and improving the customer experience around variety, quality service and value for money.

Wilko's offering

6. Wilko said that it monitored all retailers in locations near its stores but that it did not necessarily change its retail proposition or strategy based on the actions of one store. It looked at other retailers as a broad spectrum and tried to find a point of differentiation for itself based on that.
7. Wilko said that all of its proposition, including customer experience, pricing policy and quality aspirations, was set centrally as it was keen to make this consistent across the country. Its products were priced the same across all stores and online. It said that in some locations this made it slightly uncompetitive but in others it made it highly competitive. This was part of its desire to communicate to customers the consistent experience they would get from the Wilko brand across the UK. The whole proposition was focused around getting its customers' home and garden 'to dos' done.
8. Wilko said that individual store managers would have the opportunity to emphasise certain parts of their proposition where there was the opportunity for these to perform more strongly than others in the location. Its store layout and refits were organised centrally and according to the format and location type of the store. Whilst Wilko's range would not vary across stores, the amount of space allocated to product categories would vary depending on location.
9. Wilko had an annual range review cycle that involved customer insight, market and competitive research and looking at how well a line was performing for it. It would take out lines that were not selling and try to replace them with those that customers wanted. Wilko had an annual portfolio review that looked at the comparative performance of its stores. It set targets for individual stores which took account of the presence of new competitors nearby, although it did not have a predetermined mechanism for doing this.

Competition

10. Wilko did not class itself as a discounter and did not compare itself to other discounters as its proposition was different. It said that the decline in sales that it had experienced in certain products was attributable to new entrants

into some categories and the emergence of entirely new retailers. The custom available had not increased as fast as the amount of retail space nationally.

11. Wilko said that it did not know what the specific impact of different competitors opening would be, but that grocers would normally have the biggest impact due to the size of their range. The Range would have the next biggest impact as its proposition was closest in its entirety to Wilko's. Other retailers would tend to have an impact at an individual category level.
12. Wilko said that cheaper price points, in particular for branded goods, had become an ever more important factor for retailers, but that it had not deliberately tried to create a catalogue of goods around the £1 price point. Wilko aimed to first get the right range for its customers before looking at prices.
13. Wilko said that it would not reject a site opportunity for a new store based on the presence of a single price point (SPP) retailer in the same location. It viewed its competitors as a group and in terms of the individual product categories that it stocked. As part of its monitoring of other stores, Wilko said it would look at range, quality, space and financials and this information would be pulled from the public domain at a national level. It would try to ensure that its proposition had a competitive advantage over another retailer for the customers that it thought it could attract.
14. Wilko operated a forum every week within its business that looked at individual stock-keeping units and benchmarked its offering against competitors. It might choose to react to prices available elsewhere, if there was no differential in the product offered. Wilko said that this occurred mainly for the 5,000 products in its Stay Low range.
15. Wilko did not think that Poundland or 99p Stores had reacted to anything it had done in the past because their proposition was a fixed price point.

Customer behaviour

16. Wilko had embarked upon a significant piece of customer insight work to understand the impact of new competition and which customer groups its proposition had been resonating with. It introduced its Stay Low pricing as it was evident that an almost habitual change had taken place in customers' awareness of value for money, something it felt slight improvements in the economy would not change. It said that this work had identified areas where it needed to improve its quality and where it needed to be more competitive. It had seen great growth in its own label because it provided great value for money overall.

17. Wilko said that the experience customers had in store was of particular importance. It said that if it provided the customer with a good experience throughout and supplied them with the products they needed, then they were likely to return. Discounters were focused very much on purely the price experience and not necessarily the quality or customer service they offered and that this was what they needed to do in order to make their low-cost business model work.
18. Wilko said that where there was no differentiation in the product, for example with branded goods, then price was the most important point of difference between retailers. Where there was differentiation in a product, price was still important but not to the same extent.
19. Wilko said that price comparison was something that customers now found very easy to do either at home or via their mobiles. It said that the importance of prices had also increased for some customers along with their awareness of them. Wilko said that for food shopping, the overall basket cost was more important than the cost of individual items but for specific products customers might be more focused on an individual item.
20. Wilko said that there was no simple way of identifying which social demographic types would be more likely to visit discount retailers and said that, as an example, Aldi or Lidl now had a very broad spectrum of customers. It felt that customers were now prepared to shop around and were more open to all retailers. Wilko said that in high street and retail park locations, customers often came to shop across all the retailers in that location as opposed to one specific retailer.
21. Wilko said that customers would consider it as an alternative provider of certain product categories to Poundland and 99p Stores. It said that this was mainly in categories where it had a predominance of lower price points, such as FMCG. Wilko said it was important to note that in certain categories customers would also see it in competition with other retailers as well as discounters.
22. Wilko said it was emerging that customers were starting to consider both unit and absolute prices, but that absolute prices were still a more dominant contributor to decisions. It said that some recent reports had raised customers' awareness of SPP retailers using pack size to reach a price point.

Entry and expansion

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24. Wilko said that it was finding it very tough to open stores in the South East of England as all retailers wanted to open stores where the population was high. It said that it was under-represented in the South East and was trying to expand in this region, in particular in London.
25. Wilko said that when considering available retail sites, their viability would be determined by supply and demand. If the reason for the previous occupant's closure was that its proposition was wrong but the site had a high footfall, it would likely consider this site. If the site had poor footfall, Wilko said it would be the wrong location for any retailer. Wilko said that customers' shopping habits had changed over the past decade and certain high streets had fewer people shopping in them than before.
26. Wilko had a list of areas that it would focus on, where it believed its proposition would be suitable and it was not currently located. It also had a set criteria for new stores which a number of property agents would search against on its behalf and provide candidate sites that it would consider on a site-by-site basis. It was very difficult to enter the towns where it was not represented that had strongly performing retail as nobody wanted to vacate sites in these.
27. Wilko thought it was dependent on a retailer's proposition as to what scale it would need to be competitive in the discount market. If a retailer of the size and scale of Sports Direct found a proposition that worked then it would roll out at pace. Wilko thought that this made Mike Ashley's new venture, Megavalue.com, an interesting new proposition.
28. Wilko said that scale was a significant factor behind new entrants' ability to create mass quickly and would be needed for any fundamental competitive shift in the market place. Wilko felt that although scale gave an advantage, anybody could start up if they wanted to and there were vacancies on the high street.
29. Wilko said that it was not surprised that Pep&Co was planning to enter the market on a significant scale as it had publicly talked about scaling up to the size of Iceland. Wilko said that large grocers, particularly Tesco, Sainsbury's and Asda, had too much space and thought that they would look at other categories to complement their proposition. It thought this could change the dynamic in the market place.

The transaction and effects of the merger

30. Wilko said that it had not considered buying 99p Stores or getting involved in the SPP sector, either organically or through acquisition. It said that this did

not mean it would not be interested in purchasing individual stores or groups of stores that had previously been SPP retailers. If purchased it would rebrand such stores as Wilko.

31. Wilko did not think a huge amount would change if the transaction were to go ahead as the ability of Poundland and 99p Stores to vary its offering was limited, given their SPP propositions.