

ANTICIPATED MERGER OF TESCO AND BOOKER

Summary of interviews with third party suppliers

Background

1. In September 2017, the Competition and Markets Authority (CMA) held interviews with four third party suppliers in order to understand their role in the UK grocery wholesale and retail sectors and discuss their views about the anticipated merger and its likely impact in the relevant markets.
2. Below is a summary of the key points made during these discussions.

Pricing

3. Three suppliers have a price list which is available to all their customers. Based on the price list two suppliers said that their customers are able to earn discounts from that price list. One supplier said the prices prescribed in the price list vary depending on the volumes purchased and in some instances logistic/delivery efficiencies. One supplier explained that one element of its pricing structure was based on scale; for example, the bigger the customer, and the easier it was to service the customer, the better the pricing that is available to it. Another supplier said that discounts from the published price list depended on business or logistical efficiencies.
4. One supplier said that for its wholesale and convenience customers, other than the top six grocers, there is effectively one standard price list. From this standard price list these customers are able to get better prices based on factors which include volume, range, strategic importance, attractiveness of the customer base, brand activation and distribution of its products across the customer's estate.
5. In addition to the above, four suppliers also have trading agreements with their customers rewarding their customers for a number of initiatives. These initiatives include shelf position, visibility, working with them to grow their brand, how many stores or outlets that range is sold in and collaboration to expand new product categories.

Impact of the Merger

6. One supplier said that as a result of the merger, the new Tesco/Booker entity may pay less for its products. However, it said that this would be as a result of Tesco/Booker potentially being able to benefit from lower prices due to an increase in sales volumes or greater logistic efficiencies, rather than a price reduction. It further stated that, if as a consequence of the merger other wholesalers were to experience a decline in sales, then potentially they might have to pay an increased price for the product. However, it stated that again, this effect would flow from changes in the volumes purchased rather than the supplier increasing its price.
7. Another supplier said that, after the merger, Booker would be able to get cheaper prices only if it qualified for greater discounts; the published price list would not change. It stated that it did not have any major concerns about the merger as it felt that this was the way the market was moving. It said that its customers were doing a number of things to make themselves more efficient, mainly in order to lower their prices to compete with the discount stores.
8. One supplier said that the combination of Tesco and Booker makes for a very sizeable player in the total market and in terms of buyer power this may put them at an advantage. However, the supplier further stated that the impact would be dependent on whether the merged entity trades as one single company or whether they trade separately.
9. One supplier said that, if as a result of the merger there was a harmonisation in price, it could potentially reduce its total revenue from the merged entity combined by approximately 2%. However, it said that as a business it faces business risks every year and tried to overcome them by making its own business more efficient.
10. A supplier said it expects a merged Tesco/Booker would be less profitable for them as a customer than they are currently as separate companies and expect that it would have to look at ways to recover value or volume from other customers.
11. A supplier said that the merger would not impact on innovation as this is one way it grows its business. It went on to say that innovation is often global, based on global consumer trends and would not be affected by a merger in one market. Another supplier said that, if the merged company did get a larger proportion of its sales, then the impact of whether it supported the new product or not would be more significant.
12. One supplier said that should the merged entity decide to bring the service currently supplied by Palmer & Harvey to Tesco in house and, as a consequence, Palmer & Harvey were no longer able to operate, then it had considered a short-term contingency plan to ensure that its products get to market. However, it further

stated that, ultimately, it is its customers' choice where they source their products from and they could use an alternative wholesaler.