

## ANTICIPATED MERGER OF TESCO AND BOOKER

### Summary of hearing with Palmer and Harvey on 4 September 2017

#### Palmer & Harvey

1. Palmer & Harvey (P&H) said that it started as a tobacco wholesaler in 1925. It started adding different products to its range as its customers developed and grew. It also acquired a number of smaller wholesalers which has allowed it to develop its offering and geographic coverage over time.
2. P&H said that it has been facing financial issues for several years which arose as a result of being a low margin business, significant increases in costs and [redacted]. In 2008 there was a Management Buyout [redacted]. P&H said that it entered into a partnership with Costcutter, [redacted]. As part of this deal P&H also transferred MACE, its retail arm, to Costcutter.
3. P&H said that for a number of years it [redacted]. P&H said that its operational costs have risen by [redacted]% over the last 4 years and [redacted].
4. P&H said that the business refinanced in March 2016 [redacted].
5. P&H said that Tesco is its largest customer; from which it gets [redacted]% of its revenue. It used to have a rolling annual agreement with Tesco but wanted to create a level of certainty and did this by entering into negotiations with Tesco for a [redacted] contract, [redacted].

#### Wholesale business

6. P&H said that its unique selling point was that it was a national delivered wholesaler, and its 14 depots across the UK enables it to provide the same delivered service to all its customers wherever they are in the UK. It provides a shared user service for both products and distribution, where one of its vehicles delivers to more than one customer meaning the mileage between each delivery drop is lower and distribution costs are shared across all customers. P&H said that this customer density allows it to make frequent, small and secure deliveries at relatively low cost to the customer. P&H went onto say that its vehicles are also multi-temperature, allowing them to deliver ambient, chilled and frozen food to all its customers.
7. P&H noted that some other wholesalers adopt a similar shared user network, such as Nisa and Spar as well as Booker and Bestway in relation to their

delivered wholesaling businesses. However, as Nisa operates one central distribution centre for ambient goods (located in Scunthorpe) and the other delivered wholesalers do not have a fully national coverage, they can struggle to reach customers in the extremities of the UK.

8. P&H explained that another aspect which differentiates it from some other delivered wholesalers is that it delivers direct to the point of sale, whether that be a small independent retailer or the tobacco counter in [redacted]. Some other delivered wholesalers struggle to deliver to smaller shops with smaller deliveries as frequently as P&H is able to.
9. P&H explained that its business has three distinct parts:
  - i. Wholesale – predetermined orders, delivered on a shared fleet.
  - ii. Van Sales – retailers order direct from the van. Sometimes the van specialises in certain products, for example Snacks direct.
  - iii. Retail stores – symbol stores under the Central Stores fascia (operated through its retail arm, WS Retail). There are currently approximately 120-125 sites (approximately 30 of which are franchised; the remainder are operated directly by WS Retail) mainly found in the South West of England. P&H explained that these stores are helpful in developing its wholesale services.
10. With respect to its wholesale services, P&H may provide distribution-only services (as it does for e.g. [redacted]) or 'value added' services (where in addition to its distribution service, it provides services such as procurement and product range advice). P&H said, which service the customer chooses is dependent on, amongst other things, the scale and size of the customer. It is driven by a customer's needs.
11. P&H said that [redacted] use its services to deliver to their petrol forecourts and tobacco into their stores. For these customers, its role is purely a distribution one, as both [redacted] have direct relationships with suppliers and have specialist category buyers who negotiate their own prices at head office.
12. P&H said that they also provide a service for large petrol retailers like [redacted] and [redacted], where it supplies their [redacted]. Such companies do not have central grocery category procurement functions like [redacted] and therefore rely on P&H to negotiate prices, promotions and volume discounts, and provide range and pricing advice, in addition to delivery services. The same applies for other P&H customers such as symbol group retailers (e.g. [redacted]), multiple convenience stores (e.g. [redacted]) and independent retailers.

13. P&H said that it has been successful in delivering tobacco because it has been providing this service since the company was formed and over time it has developed its infrastructure so that it can provide the necessary levels of security. P&H said that its vehicles are equipped with CCTV cameras, it has a central monitoring station and it works very closely with the police. In addition, P&H provides staff training and ensures that tobacco products are delivered directly to the point of sale.
14. P&H said that it is seen as an expert in this area and it has led on work for the industry on the impact of the new tobacco legislation, including the introduction of plain packaging and expects to be a similar position in relation to track and trace when this comes into effect. As a result, many of P&H's new protocols and processes have been taken into account by other wholesalers in developing their own protocols.
15. In addition, P&H said that a significant factor in being successful in tobacco wholesale is the pricing benefits which it gets due to the scale of its purchases (its purchases represent [X] % of sales in the UK tobacco market). [X].
16. [X]. Some large retailers perform tobacco delivery in-house (e.g. Asda, Coop), although some partner with a logistics firm to deliver the 'final mile' (e.g. Morrisons, who partner with Clipper).
17. However, P&H also noted that margins on tobacco sales were very low, as the majority of the sales price was duty. This was particularly significant for P&H, given that tobacco represented such a large proportion of its sales.

## Competitors

18. P&H said it has a large and varied range of competitors, which vary across different customer groups:
  - a. For independent retailers, there are multiple sources for purchasing stock; national, regional and local wholesalers as well as specialist suppliers, cash and carry operators and white van sales.
  - b. For its business with Sainsbury's and Tesco, P&H competes with the multiples' own distribution networks or third party logistics providers;
  - c. For symbol group retailers, competition is mostly from delivered wholesalers, such as Booker, Nisa, Spar and Bestway;
  - d. For multi-site petrol forecourt operators, there is an even wider range of competitors: WH Smith would even compete for this business, as would catering delivered wholesalers who are delivering to food service outlets on the same site (e.g. at a motorway Welcome Break).
19. P&H said that Booker is a competitor, for both symbol and unaffiliated independent retailers. In addition, P&H said that it also competes with Booker for the larger national accounts. [X].

20. P&H said that the most important factor for independent retailers is price. Price is influenced by buying power and this is improved through building relationships with multiples (who purchase very substantial volumes, and this volume builds buying power), [REDACTED]. [REDACTED] These retailers are always looking for a deal and will shop around. Independent retailers are 'promiscuous' and [REDACTED]
21. P&H said that some delivered wholesalers such as Booker, find it hard to deliver to remote areas of the UK due to their lack of a fully national coverage. However, P&H remains subject to significant competition in these areas from a range of other sources including from national delivered wholesalers, regional and local delivered wholesalers, cash and carry outlets, multiple key grocery stores, local "white van men" and local suppliers.
22. Regarding the ability of P&H's competitors to expand to service those customers which P&H serves, P&H said that large customers will want an operator with a proven track record. When a major contract is up for renewal, the customer will want a provider to demonstrate that it has the assets and infrastructure in place; it is not always about price, operational capability is also very important.
23. Regarding logistics companies, P&H said that these logistics providers already play an important role for some customer segments: for example, while Morrisons has won a new supply contract for McColls, it is DHL that will actually deliver the 'final mile' for Morrisons. Logistics companies may be able to expand into more frozen and chilled delivery. However, for them to establish full supply relationships would be more difficult: they do not have the procurement and back office specialists. They also currently use big trucks for delivery, so would not be able to perform the small deliveries that P&H does. P&H were of the view that it would be more likely for an existing competitor to expand and change its offer than see a new entrant such as a logistic company enter the market.
24. [REDACTED].

## Impact of merger

25. P&H said that it was naturally concerned about the impact of the merger on its business as Tesco is [REDACTED]% of its revenue. It said that although it is comforting that Tesco has expressed that it has no current intentions to end the P&H contract, P&H must be prepared for every eventuality. [REDACTED].
26. P&H said that there has been a lot of recent market activity between the multiple retailers and the larger wholesalers, and the future will probably see more consolidation. However, at the lower end of the retail market, there remain

approximately 40,000 independent retailers (largely smaller convenience stores) that will continue to need a wholesale service. P&H said that convenience stores are adapting to their customers' needs; offering more 'food to go', frozen and fresh food, however with this brings challenges for the retailer such as wastage issues, bigger boxes, cost of storage and delivery. P&H said it will continue to serve such customers post-merger. P&H also noted that the average convenience store size was dropping, which should further play to P&H's strengths of being able to serve small delivery orders.

27. P&H said that once merged Tesco/Booker would, in theory, be able to provide the service that P&H currently provides to Tesco and One Stop in-house. However, P&H said that Tesco/Booker would have to make considerable investment in automation, multi-temperature vehicles and infrastructure for this to be viable. P&H noted that Booker's delivery network is predominantly focused on the south of the UK, so it does not have the same level of national coverage as P&H. However, if Tesco/Booker were minded to bring delivery in-house, they would be able to build the capability to do so.
28. Booker would also benefit from access to cheaper cost prices than are available to other wholesalers, through Tesco. It will therefore be very price competitive in any future tenders for major contracts. P&H said that Booker's relationship with Tesco may be a consideration for some retail customers (for whom Tesco is a competitor), but this may be overridden by price factors.
29. [REDACTED].
30. [REDACTED], the loss of the Tesco business would still have a serious impact on P&H's efficiency, pricing and operations. P&H said that if they lose Tesco's business it would need to consider restructuring, [REDACTED]. In addition, due to its relationship with Tesco, [REDACTED]. [REDACTED]. [REDACTED].
31. P&H said that if it lost Tesco's business, the UK's largest retailer, it would need to win several significant contracts to bring it back to a status quo. Tesco could not be replaced with just one new contract. P&H explained that this would be difficult to achieve and, since several wins would be necessary to replace the value of the Tesco contract, this was unlikely to be achieved in a very short time period