CASE No. ME/7099/24

Acquisition of Wincanton plc by GXO Logistics, Inc.

12 March 2025

RESPONSE TO THE CMA'S INTERIM REPORT DATED 19 FEBRUARY 2025

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A. EXECUTIVE SUMMARY

(1) The Parties welcome the opportunity to respond to the CMA's Interim Report (***IR***) and in particular welcome its provisional findings that:

(a) with respect to transport and shared warehousing, GXO's acquisition of Wincanton (the ***Merger***) is not expected to raise significant competition concerns;[1] and

(b) with respect to the non-grocery retail customers within the dedicated warehousing market, while the CMA considers the evidence is finely balanced, the presence of sufficiently strong competitive alternatives means that the Merger is not expected to result in an SLC.[2]

(2) The IR provisionally finds an SLC in the supply of dedicated secondary warehousing to national supermarket chains in the UK (the ***Grocery*** segment) due to the reduction in choice for those customers (***Grocers***).[3]

(3) On the IR's provisional findings, the potential harm is particularly narrow. It is limited in duration given the finding that entry is likely (albeit not of sufficient scale in the short term),[4] and is limited in scope given only a few Grocers raised concerns with self-supply or sponsoring entry.[5] Five of the UK's 10 Grocers[6] did not express any concerns about the impact of the Merger on competition. Of the five Grocers who raised concerns about the Merger: (i) just three expressed any concerns with switching to new 3PLs;7 and (ii) only four expressed any concerns about their ability to efficiently re-insource.[8]

(4) There is a strong case for clearance based on the IR's provisional findings. The IR accepts that Grocers are sophisticated and well-informed customers.[9] They are able and motivated to exert maximum pressure on 3PLs by switching or threatening to switch to DHL,[10] a new entrant 3PL (into this segment),[11] or insourcing.[12] While the IR considers these competitive constraints, it does not assess their aggregate effect on the Merged Entity's incentives immediately post-Merger: in particular, the IR does not consider whether, and to what extent, the threat of new entry would affect the Merged Entity's incentives even before one or more new 3PL entrants into this segment achieved scale. A simple model prepared by Frontier Economics (***Frontier***) based on the IR's findings demonstrates that when all sources of

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1 IR, paragraphs 5.20 and 5.34.
2 IR, paragraph 5.82.
3 IR, paragraph 5.83.
4 It finds that some 3PLs said entry is easy, and some Grocers have the opportunity and desire to sponsor that entry in the next two years. IR, paragraphs 6.13 and 6.27.
5 IR, paragraphs 5.62(c), 5.59(c), 5.60(c) and 5.60(d) ([Redacted]).
6 Although [Redacted] were not contacted, it is unlikely that they would have concerns given that [Redacted].
7 IR, paragraphs 5.44(c), 6.11 and 6.34 ([Redacted]).
8 IR, paragraphs 5.62(c), 5.59(c), 5.60(d) and 5.60(c) ([Redacted]). The three Grocers who expressed concerns about switching to a new 3PL were also three of the four Grocers who raised any level of concern regarding self-supply. Although [Redacted] indicated a preference for outsourcing in some circumstances (IR, paragraph 5.58(b)), it was not concerned about the impact of the Merger.
9 IR, paragraph 6.26.
10 IR, paragraph 5.44(b).
11 The IR identifies two Grocers ([Redacted]) willing to sponsor entry immediately, and one further Grocer willing to start a 3PL off with a smaller site ([Redacted]).
12 All but one Grocer either indicated no concerns with insourcing or indicated that they would do so if given a reason to. All can leverage an implicit or explicit threat to insource given information asymmetries. See Section G.I below.

constraint are considered together, the Merged Entity could *not* profitably raise prices or deteriorate its offering.

(5) The CMA could therefore safely unconditionally clear this Merger on the basis of a more holistic assessment of the Merged Entity's incentives in the period immediately post-Merger, using the evidence presented in the IR.

(6) This conclusion is further strengthened by a closer examination of the factual basis for the IR's conclusions regarding the extent of threat of new entry and self-supply. This submission provides new evidence demonstrating that:

(a) if existing 3PLs degraded their services, entry would be faster and more expansive than the IR provisionally finds – the risk of triggering such entry exerts a strong disciplining effect on the Parties today; and

(b) although some Grocers identified downsides to self-supply, it is a close substitute for most Grocers most of the time, and all Grocers benefit from the implicit threat of self-supply given the Merged Entity's imperfect information regarding each Grocer's willingness to switch.

I. When all relevant and material considerations are assessed, the IR's factual findings do not imply an SLC

(7) The IR acknowledges that the Merged Entity would face competitive pressure from DHL, self-supply, and new entry. However, it assesses new entry separately from the threat posed by DHL and self-supply as it assumes that an incumbent 3PL would not factor new entry into its strategic decision making until it had already lost several dedicated Grocery warehousing contracts to the new entrant.[13]

(8) In reaching this conclusion, the IR does not take account of several relevant considerations, each of which is material to the finding of a provisional SLC.[14]

(9) The IR overlooks the immediate deterrent effect of prospective entry, and the extent to which the Merged Entity's own conduct would affect the strength of that threat. These are clearly relevant considerations in any analysis of whether an SLC is likely to arise *before* a new entrant achieves scale. Even before new 3PLs establish a track record, the Merged Entity would need to consider the risk that raising prices or reducing service quality could prompt Grocers to support new entrants. This is particularly important given that opportunities in this market are relatively rare, and just a few tender wins are sufficient to overcome track record as a barrier.[15] Moreover, track record can be gained by winning tenders for just part of a Grocer's existing needs, such as at the level of a single warehouse, rather than for its entire demand. If the threat of future competition outweighs any short-term gain from a price increase, the Merged Entity would be effectively constrained.

(10) Frontier has prepared a simple model that illustrates the Merged Entity's incentives immediately post-Merger when considering the integrated competitive pressures imposed by DHL, self-supply, and future entry. Despite relying on conservative assumptions, it demonstrates that the Merged Entity could only rationally raise prices if the threats of both self-supply and losing contract renewals with Grocers

[13] IR, paragraph 6.39.
[14] *Tesco v Competition Commission* [2009] CAT 6, paragraphs 77 and 78, available here.
[15] IR, paragraph 6.39.

were unrealistically weak. The model's methodology and output complement the intuition that when the different sources of constraint are considered cumulatively, the "balance of probabilities" test for an SLC is not met.[16]

i) *There are significant wider long-term costs of triggering entry/expansion by another 3PL*

(11) In addition to the short- and medium-term risks modelled by Frontier, triggering entry and expansion of rival 3PLs would also create longer-term costs for the Merged Entity. The only significant barrier of entry identified in the IR – "*track record*" – is fragile since, as the IR acknowledges, it takes just one or a small number of customers to encourage entry. Once the new 3PL has established the necessary "*track record*", it could compete effectively and potentially take business from the Merged Entity across the board — either from the same customer or from another Grocer. Therefore, every Grocery tender opportunity is high stakes for the Parties and will continue to be so for the Merged Entity.

ii) *The Merged Entity could not accurately price discriminate and would operate in an environment of imperfect information which would deter it from degrading its offer*

(12) The IR's provisional conclusion rests on a finding that the Merged Entity could raise prices or degrade service levels for an identifiable group of Grocers who are unable or unwilling to switch to self-supply or an alternative 3PL (other than DHL), or sponsor entry. Although the IR recognises that the risk of losing to a new entrant or a customer encouraging entry creates uncertainty, it provisionally finds that this only constrains 3PLs "*to some extent*" as they invest time in understanding a customers' requirements and have previously been able to guess the most credible competitors in a given tender.[17]

(13) This does not adequately take account of information asymmetries between a 3PL and its customers. As the IR itself recognises, the Merged Entity would lack the customer intelligence to identify and target Grocers accurately. It therefore would not know how willing each Grocer would be to: (i) switch to DHL; (ii) sponsor new entry; (iii) switch to self-supply; or (iv) punish a 3PL by moving business elsewhere once new entry restores choice. The Merged Entity also would not know whether DHL would react by raising prices or taking market share.

(14) Each Grocer's views on these matters depends on its own assessment of a range of qualitative factors, and the weight it places on these factors is likely to change over time.[18] Grocers have strong incentives to preserve this ambiguity, as they know that, by doing so, they bring additional competitive pressure to bear all 3PLs bidding for their business.[19] Whilst the Merged Entity may invest time in understanding

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[16] *IBA Health Ltd v OFT* [2004] EWCA Civ 142, paragraph 46, available here.

[17] IR, paragraph 6.36.

[18] The IR states at Appendix C, paragraph C.13 that the different financial and strategic considerations that drive customers' decisions to outsource or insource are typically customer-specific in terms of the weight attached to them. The IR states at paragraph 5.73 that there are benefits of outsourcing that are inherently difficult to capture in GXO's modelling, and therefore does not robustly establish that customers have an incentive to switch to insourcing to prevent a degradation in quality or price post-Merger. This holds for other customer preferences, such as their willingness to switch to DHL, sponsor entry, or punish a 3PL for raising prices once new entry has restored customer choice.

[19] The IR confirms at Appendix C, paragraph C.33 that Grocers only intentionally share information with 3PLs when it is in their interests to do so.

customers' requirements[20] and has historically been able to guess who is likely to have participated in Grocery segment tenders, it would nonetheless have limited visibility over each Grocer's subjective views on these matters.

(15) Any attempt to implement a broad-based reduction in competitiveness would unequivocally result in greater losses than gains for the Merged Entity. Any attempt to price based on the Merged Entity's best estimates as to how willing each Grocer would be to switch to self-supply, DHL, or sponsor a new entrant would be inaccurate by a significant degree and would not be able to accurately factor in the risk of retaliation. The Merged Entity would therefore put at risk a potentially significant amount of business with Grocers, who are willing to consider other options, by mispricing its bids.

(16) All Grocers are shielded by the implicit threats of self-supply, switching 3PLs, sponsoring new entry, and future punishment for any price rises, whatever the individual preferences of each Grocer on these points may be in practice. As [Redacted] said, even though it does not expressly threaten to insource in negotiations with 3PLs and claims to be incapable of switching to self-supply for the only [Redacted] dedicated Grocery warehouses that it currently outsources, it still considers that implicitly 3PLs are more worried about insourcing than losing business to other 3PLs.[21]

(17) Frontier has undertaken additional modelling work to illustrate how the Merged Entity's imperfect information regarding Grocer's preferences would further increase the cost of raising prices or degrading the quality of services. This work reinforces the conclusions of Frontier's baseline analysis.

II. In any event, a fuller assessment of market characteristics and additional evidence provides further comfort that there are no competitive concerns in the Grocery segment

(18) The IR's provisional conclusion on Grocery dedicated warehousing relies on findings that, in the event of the Merged Entity raising prices or degrading its service, Grocers would be forced to accept it for a period as: (i) no 3PL other than DHL has a sufficiently credible UK track record to step up rapidly; and (ii) some Grocers would be worse off if they switched to self-supply.

(19) However, a full and proper consideration of the evidence in the case, including new evidence provided by the Parties in this response, demonstrates that the weight of evidence does not support these findings. When assessed overall, it is clear that on the balance of probabilities, the Merged Entity would be significantly constrained by the threat of new entry and by the threat of re-insourcing immediately post-Merger.

20 IR, paragraph 6.36.
21 IR, paragraph 5.62(c).

i) *<u>There are multiple 3PLs that can credibly evidence track record quickly in the event that the Merged Entity raised prices or degraded its service</u>*

(20) The IR identifies only one material barrier to other 3PLs challenging the incumbents for large contracts: UK track record. However, the evidence demonstrates that this barrier is surmountable for a sufficient number of 3PLs.

(21) *<u>First</u>*, market participants hold a range of views on the importance of a UK track record. Two 3PLs consider there to be no material barriers to entry into Grocery ([Redacted]), with one describing entry as "pretty easy" ([Redacted]).22 Some Grocers are also less concerned with track record: two ([Redacted]) confirmed they are willing to sponsor new entry and also have contracts up for renewal in the near future. In fact, one Grocer ([Redacted]) is already talking to a 3PL ([Redacted]) to "explore potential options moving forward", and two more Grocers ([Redacted]) have already invited two other 3PLs ([Redacted]) to participate in recent tenders despite those 3PLs lacking a UK-specific track record in the Grocery Segment.

(22) *<u>Second</u>*, many 3PLs can *already* evidence many of the essential components of "*track record*" in various ways, including by referencing (i) prior or other warehousing experience with UK Grocers; (ii) other contractual relationships with UK Grocers; (iii) experience in Grocery in other jurisdictions; (iv) experience in adjacent markets; and (v) senior staff from experienced incumbents. Indeed, at least four 3PLs (CEVA, Culina, XPO and ID Logistics) can each demonstrate multiple of these credentials.

(23) The IR does not acknowledge the simple reason why rival 3PLs are not currently leveraging this "*track record*" to create "*concrete plans*"[23] to enter the Grocery segment. As explained previously by the Parties, rivals are deterred from entry due to (i) the intensity of competition among 3PLs currently active in the Grocery segment; (ii) the evident threat of self-supply which further sharpens 3PL competition; and (iii) the very low margins earned by 3PL competitors active in this segment as a result.[24] Indeed, the IR notes that [Redacted] provided evidence that "*relatively low margins in the Grocery segment… may limit their incentives to enter this segment*".[25] Low margins are a manifestation of the competitiveness of the market, which disincentivises new entry.

(24) Were the Merged Entity to attempt to raise prices or degrade its offering, 3PLs who had previously been reticent due to the competitiveness of the market would be likely to enter. They would be encouraged by Grocers and could take advantage of at least [Redacted] worth of contracts coming up for tender in each of the coming years.[26] The actual constraint from these 3PLs would therefore emerge much quicker than the IR anticipates.

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22 IR, paragraph 6.13.

23 IR, paragraphs 6.24, 6.26 and 6.32.

24 See, for example, Merger Notice, paragraphs 63, 251, 453 and 569; Parties' Annotated Response to the Issues Letter, Annex 006; Phase 1 Decision Response submitted 2 December 2024 (**P1DR**), paragraphs 1.6(c)(ii), 1.10(d), 5.13–5.14, 6.26(d) and 7.21; Frontier submission on margins submitted 5 January 2025.

25 IR, paragraph 6.25.

26 IR, paragraph 6.30.

ii) Self-supply is a close substitute and a threat that all Grocers can leverage

(25) The IR identifies that five Grocers claimed they would not be able to fully replicate some features of outsourcing with self-supply. However, this feedback is contradicted by a significant body of other more persuasive evidence demonstrating those Grocers' ability and incentive to self-supply.

(26) *First*, the IR overstates the level of concern Grocers raised regarding insourcing. Of all Grocers, [Redacted] was most concerned about its ability to self-supply, but its negative feedback almost certainly related to its [Redacted] warehouses: its comments about self-supply representing a "*very big cultural shift*" can only be logically interpreted as applying to its [Redacted] warehouses, as it already insources [Redacted] warehouses). [Redacted] appears to have assessed an unrealistic scenario and may also have been considering [Redacted]. [Redacted] was not concerned with the effect of the Merger on competition overall, and only expressed a preference to outsource new sites and "*radical change*" projects (which are rare – see paragraph (152)(155) below). The two other Grocers identified benefits of outsourcing but confirmed they would switch if given a reason to ([Redacted]). None of the UK's five other Grocers raised any concerns.

(27) *Second*, other more persuasive evidence confirms Grocers have the ability to self-supply, including for new sites and major change projects. Nine of 10 Grocers operate warehouses inhouse today, including all five Grocers who raised concerns about self-supply. In fact, [70-80]% of all dedicated Grocery warehouses in the UK are self-supplied.[27] There is no evidence that the dedicated warehouses that Grocers outsource differ in any material respect from those that they self-supply. Further, Grocers have significant inhouse resources and capabilities, with strong track records that include running major change projects or setting up new sites inhouse.

(28) *Third*, Grocers would have a clear incentive to switch to self-supply in response to an SLC. Grocers' own benchmarking data provided in response to RFI 4[28] confirms that they run warehouses just as efficiently inhouse. Economic modelling confirms the benefits of self-supply and outsourcing are finely balanced.[29] Every Grocer, except for [Redacted], who gave feedback on self-supply confirmed they would consider switching if given a reason to.

(29) *Fourth*, as [Redacted] confirmed, even if a Grocer might doubt its ability to self-supply, it can still leverage the implicit threat of self-supply. As noted above, 3PLs do not know how individual Grocers assess their ability to self-supply, as it has no correlation with the Parties' perception of Grocers' actual inhouse capabilities, and depends on their individual preferences. Even if a 3PL sought to make predictions based on the type of site (e.g. whether it is a new site), it would risk making frequent errors. However, 3PLs know that [70-80]% of the time, Grocers will opt for self-supply.[30] 3PLs must therefore act on the very real threat of self-supply on the basis that any Grocer may insource any project. A 3PL could not even reliably

[27] See **Annex 003**.
[28] See, Parties' Response to the CMA RFI 4 submitted 22 January 2024.
[29] See, Frontier Insourcing Paper (Updated) dated 14 January 2025. Even factoring in qualitative benefits of outsourcing that are not modelled does not alter this conclusion, as benchmarking data indicates insourced warehouses are just as efficient, whereas Table C.3 indicates that they would need to be considerably less efficient that outsourcing for Merged Entity to be able to raise prices.
[30] See **Annex 003**.

assume Grocers would be less willing to self-supply new sites or major change projects (which are rare), as Grocers can and often do manage these inhouse as well.

(30) *Fifth*, if Grocers did re-insource, the disbenefits of self-supply that the IR identifies are of limited materiality and would largely be offset by savings on 3PL management fees. This is underlined both by modelling work undertaken by Frontier and by the fact that:

(a) similar warehousing operations are insourced by some Grocers yet outsourced by others; and in many instances, the same Grocer insources and outsources very similar warehousing operations (e.g. regional distribution centres that perform equivalent functions in different regions of the country);

(b) as shown by benchmarking evidence, Grocers can replicate many of the benefits of outsourcing inhouse, including innovation and best practice; and

(c) the transitional costs of switching to self-supply are low and – as noted by the CMA itself[31] – are in large part the same as the costs that would be incurred in the event that the customer switched between 3PLs.

iii) *The totality of the evidence demonstrates no basis to find an SLC*

(31) The CMA must establish at the endpoint of its overall assessment of the case that, on the balance of probabilities, an SLC is likely.[32] The IR does not meet this threshold for two reasons:

(a) On a proper analysis of the cumulative constraint the Merged Entity would face immediately post-Merger (including from the threat of accelerating entry) the IR's factual findings lead to a clear conclusion that the Merged Entity would have no incentive to raise prices, and the test for an SLC is therefore not met.

(b) Further, those factual findings are themselves incorrect when all relevant evidence, including new evidence provided in this response, is considered and weighted appropriately. They therefore cannot properly serve as building blocks leading to a finding of an SLC conclusion.

III. Response Outline

(32) The response is structured as follows:

(a) **Sections B–E** set out the Parties' limited comments on the relevant merger situation, counterfactual, market definition, the UK transport market, and the UK shared warehousing market.

(b) **Section F** sets out the case for clearance of the Merger even if the IR's key factual findings are taken as they (provisionally) stand. In support of their

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31 IR, Appendix C, paragraph C.22, "*estimated one-off transitional self-supply costs, which we understand to be general 3PL switching costs and are not specific to self-supply*".

32 *British Sky Broadcasting Group Plc v The Competition Commission & Anor* [2010] EWCA, paragraphs 52 to 55, available here; and *Intercontinental Exchange, Inc v Competition Markets Authority* [2017] CAT 6, paragraph 245, available here.

case the Parties provide new evidence on the likely effect of a reduction in customer choice arising from the Merger. It demonstrates that even on highly conservative assumptions, the Merged Entity would have no incentive to raise prices post-Merger.

(c) **Section G** explains why – when all the evidence in the case is properly considered – the Merger is even less likely to substantially lessen competition in the Grocery segment:

(i) **Subsection I** confirms that new entry and expansion is more likely than the IR provisionally concludes and will also be both more rapid and more extensive than assumed.

(ii) **Subsection II** explains how the weight of evidence demonstrates self-supply is a more extensive constraint than the IR identifies. The extremely limited set of call notes the IR relies on are flatly contradicted by a larger and more persuasive body of evidence.

(d) **Section H** provides further evidence that strengthens the IR's provisional conclusions that a SLC in the non-Grocery Retail segment of the dedicated warehousing market is unlikely, and highlights limitations in the evidence present in the IR that could be used to support a different conclusion.

B. RELEVANT MERGER SITUATION AND COUNTERFACTUAL

(33) The Parties have no comments on the CMA's provisional conclusions on the relevant merger situation or counterfactual.

C. MARKET DEFINITION

I. Geographic market

(34) The Parties have no comments on the CMA's provisional analysis regarding the geographic dimension of the market.

II. Product Market

(35) The Parties have no comments on the CMA's provisional conclusion that transport, shared warehousing, and dedicated warehousing services are three separate product markets.

(36) The Parties make three comments on the framing of the market for dedicated warehousing:

(a) There is a significant overlap in features, requirements and (to the limited extent it occurs) innovations across different customer groups within the market. For example, food manufacturers' primary warehouses and other upstream warehouses in the Grocery supply chain have similar temperature control and regulatory compliance requirements, are not particularly automated, and are subject to the same peaks and troughs in demand. The cost of failure is high for perishables in other parts of the Grocery supply chain.

(b) Self-supply should be assessed as an in-market constraint, especially when focussing on the Grocery segment for the reasons set out in Section G.II below. It is the dominant solution in this segment used by [0-10] out of 10 Grocers for [70-80]%[33] of dedicated Grocery warehouses in the UK, with substitution occurring in both directions.

(c) Two types of specialised Grocery sites have been treated as out of scope when assessing the provisional SLC. Recycling & Reclamation Unit (**RRU**) sites are out of scope, as they are distinct operations.[34] Wincanton is also not active in RRU operations. B2C ecommerce warehouses have been treated as out of scope as well, as they have different functionality and are operated by a distinct set of competitors. They are a specialised type of warehouse designed to pick and pack small orders to fulfil individual end consumers' online orders. These warehouses consequently do not use pallets and cages used in other dedicated Grocery warehouses for shipments to supermarkets. They tend to be more highly automated:[35] Ocado is an

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[33] See **Annex 003**.

[34] RRU's involve the waste element of wider warehousing operations, and are frequently tendered and managed separately by a different 3PL from other warehousing operations by Grocers with a broad set of credible competitors. See, Frontier Insourcing Paper (Updated) dated 14 January 2025, paragraph 46 and footnote 25.

[35] The IR stated at paragraph 4.17 that, "*One Grocer for example noted the difficulty of automation in warehouses such as its own (referred to as 'large scale pick operations') compared to other businesses such as ecommerce.*"

important 3PL in this space.[36] GXO does not operate any B2C ecommerce warehouses for Grocers.

D. TRANSPORT

(37) The Parties have no comments on the CMA's provisional conclusions regarding the market for transport services.

E. SHARED WAREHOUSING

(38) The Parties have no comments on the CMA's provisional conclusions regarding the market for shared warehousing.

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[36] See, for example, (1) Ocado, "*Online Grocery Through The Ocado Smart Platform*" (see here); and (2) Automated Warehouse, "*How Ocado created automated storage to support e-commerce fulfillment*" (see here). Automation was a key feature the IR identified that distinguished Grocer's dedicated warehousing requirements.

F. DEDICATED GROCERY WAREHOUSING – THE CASE FOR CLEARANCE ON THE IR'S FINDINGS

(39) The IR provisionally concludes that the Merger may be expected to result in an SLC in the supply of dedicated warehousing to Grocers in the UK on the basis that they will face a significant reduction in choice and the Merged Entity would therefore be able to increase price or degrade service levels.

(40) However, even on the IR's provisional conclusions, situations where choice is materially reduced are rare. They are confined to specific services within the broader contract logistics services (**CLS**) industry (dedicated warehousing) and involve a narrow group of customers (Grocers) who claim re-insourcing to be an inferior option for at least some of their warehouses and are unwilling to sponsor the entry of a new 3PL. The reduction in choice only exists for a limited period, until new 3PLs can demonstrate the requisite track record (see **Section I**).

(41) Even in the rare cases where the IR provisionally finds that choice is materially reduced for a limited time, the IR's provisional findings do not support a conclusion that these customers would, on the balance of probabilities, be materially worse off. In particular, the combined effect of the threat of future entry or expansion, existing competitive pressure from DHL and self-supply will prevent the Merged Entity from profitably raising prices or degrading its offering immediately post-Merger (see **Section II**).

I. On the IR's findings, customers would face materially reduced choice in only rare situations and only for a short period of time

(42) The group of customers and warehouses for which the reduction in choice caused by the Merger could potentially be significant is exceptionally narrow:

(a) Within the dedicated warehousing market, the provisional SLC is limited to the Grocery segment, which accounts for approximately [20-30]% of the market.

(b) Of the UK's 10 Grocers, only five expressed concerns in relation to any aspect of the Merger ([Redacted]).[37]

(c) These five Grocers outsource only [10-20] warehouses between them to 3PLs today.[38] Factoring in their future plans does not materially alter the scope: they are planning just [0-10] new warehouses and change projects in the next two years (which they may also want to outsource).[39]

(d) The fees 3PLs charge to these five Grocers for dedicated warehousing account for less than [0-10]% of UK Grocer's total warehousing logistics services spend.

[37] IR, paragraph 5.44(a).

[38] [0-10] are outsourced to DHL and [0-10] to the Parties. See Annex 003.

39 IR, footnote 267. The Parties' internal data notes that [Redacted]. This matches the IR's count of three potential new sites, including [Redacted].

(43) Further, on the IR's provisional conclusions, the vast majority of Grocers could mitigate a degradation in the Merged Entity's offering by switching to alternatives:

(a) DHL is a strong global rival with an established UK-specific track record in dedicated Grocery warehousing, who will continue to compete aggressively with the Merged Entity in this segment post-merger.[40]

(b) Six out of 10 Grocers are able to efficiently self-supply:

(i) Four Grocers confirmed they could self-supply effectively ([Redacted] with the rare exception of new sites and sites undergoing major change and [Redacted]) or would consider contracting with a 3PL who does not have UK-specific track record in the dedicated Grocery warehousing-specific segment ([Redacted]).[41]

(ii) Two further Grocers that the CMA did not contact already rely [Redacted] on self-supply ([Redacted]), and have therefore demonstrated that self-supply is their preferred solution. In addition to providing unequivocally positive feedback on its ability to self-supply, [Redacted] relies [Redacted] on self-supply too.

(c) Three further Grocers indicated they could switch to self-supply if pushed, even if it was not their preferred choice ([Redacted]) and appear to be willing to engage with potential entrants ([Redacted]).[42]

(d) Only one of 10 Grocers ([Redacted]), which outsources just [Redacted] warehouses (out of a total of [Redacted] dedicated Grocery warehouses), claimed that it would neither re-insource nor be willing to switch to a new 3PL in the short term. However, its claims (which are costless to make) should be critically evaluated against other more probative evidence of its actual capabilities and conduct in the market. As set out in paragraph (146)(a) below, [Redacted] claims that it could not self-supply were almost certainly made in relation to its [Redacted] warehouses rather than its [Redacted] warehouses (and the Parties request that the CMA checks this point). Even [Redacted] admitted that it would be ready to switch to a new 3PL eventually, although it would "*prefer*" to see a new 3PL performing well in smaller contracts first, and would then be open to awarding contracts to

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40 IR, Summary, paragraph 14.

41 [Redacted] is already speaking with [Redacted] and generally has positive views on insourcing, except in the case of major change projects; [Redacted] expressed positive views on insourcing and indicated a willingness to award smaller contracts to new entrants; [Redacted] expressed positive views on both insourcing and sponsoring entry; and [Redacted] expressed no concerns with self-supply [Redacted].

42 [Redacted] identified some benefits of outsourcing but confirmed insourcing decisions are made on a case-by-case basis, and did not indicate it would be unwilling or unable to re-insource. [Redacted] confirmed that it would consider self-supply more if there were significant negative effects from the merger. [Redacted] confirmed it would undertake the switch to self-supply if given a clear and compelling reason to do so. It said self-supply is [Redacted] and it currently lacks the capacity to manage all operations inhouse. However, this is not assessing the correct scenario. Its contracts are not up for renewal for [Redacted] years, and expiry dates are staggered. It would not be required to switch all [Redacted] outsourced sites "*currently*" or "*at this time*". The IR does not record [Redacted] views on awarding contracts to new entrants, but its previous contracts with [Redacted] suggest a readiness to engage with potential entrants; [Redacted] indicated that it "typically" operates warehousing inhouse.

them. As set out in paragraph (120), its track record of switching to new 3PLs in the past indicates it is more comfortable doing so than it claims.

(44) Even if Grocers' feedback is accepted at face value and not evaluated against other evidence, the evidence before the CMA shows that almost all of the Grocers have a range of options for their dedicated warehousing beyond DHL and the Merged Entity.

(45) Finally, the IR acknowledges that any reduction in choice would be time-limited. The IR provisionally concludes that while entry is likely, effective entry is not likely to occur within the two years post-Merger.[43] The IR appears to accept though that sufficient entry by just one new 3PL would restore choice and mitigate any SLC.[44] In short: the evidence in the IR supports that any hypothetical reduction in customer choice resulting from the Merger would be limited and temporary.

II. The threat of future entry will impose an effective competitive constraint on the Merged Entity

(46) Although the IR acknowledges that DHL, self-supply and entry and expansion of rival 3PLs impose competitive pressures on the Merged Entity, the IR provisionally concludes that none of these factors are sufficient to prevent an SLC. It suggests that:

(a) while DHL is a significant competitor, its presence alone may not be enough to prevent an SLC;[45]

(b) while self-supply would pose a competitive constraint on the Merged Entity for "*some customers and tenders*", there are other circumstances in which self-supply is not a close substitute to 3PLs;[46] and

(c) while countervailing entry or expansion would be likely to occur at some point post-Merger, the IR finds that "*effective entry is not likely to occur within the timeframe set out in the MAGs*".[47]

(47) In reaching this conclusion, the IR does not take account of several relevant considerations, each of which is material to the finding of a provisional SLC.[48]

(48) The IR provisionally concludes that rival 3PL entry and/or expansion will sufficiently constrain the Merged Entity only once the new 3PL regularly participates in tender exercises and wins at least some with some regularity.[49] However, the IR does not reflect that the prospect of *future* entry and/or expansion can exert a competitive constraint *today* through dynamic competition.

(49) The Merged Entity would need to weigh any potential short-term financial gains from price increases or service reductions against the risk of incentivising Grocers to support, sponsor or otherwise incentivise entry/expansion by other 3PLs. Those

43 IR, paragraph 6.42.
44 IR, paragraph 6.39.
45 IR, paragraph 5.81
46 IR, paragraph 5.75.
47 IR, paragraph 6.42.
48 *Tesco v Competition Commission* [2009] CAT 6, paragraph 77, 78, available here.
49 IR, paragraph 6.39.

3PLs would be well-placed to win opportunities in all future contract tenders across a range of Grocers, having established a track record in the segment.

(50) If the profits at risk from triggering 3PL entry or expansion are high enough that the negative potential impact of additional future competition on profits outweighs any short-term gain, the Merged Entity would be deterred from attempting price increases or service degradation. In other words, entry will serve as a competitive constraint even before it materialises.

(51) To address this consideration, Frontier has developed an integrated analytical framework (***Modelling Analysis***) that consolidates the various key components of the IR's competitive assessment. Building on the IR's own provisional conclusions regarding the competitive threat posed by DHL, self-supply and 3PL entry/expansion, this Modelling Analysis demonstrates that:

(a) the likelihood of *future* 3PL market entry or expansion creates a competitive constraint in the *present*, discouraging the Merged Entity from attempting price increases or service reductions that might drive customer defection or attract new competitors; and

(b) when combined with the IR's own provisional conclusions about (i) the existing credibility and strength of DHL as a competitor; and (ii) the constraint imposed by self-supply for most Grocers in most circumstances, there are no grounds for concluding that the Merged Entity would have an incentive to increase fees or impair service quality for Grocery customers.

(52) This analysis shows that the omission to account for the competitive constraint imposed by the possibility of future entry is material, as it could have influenced the IR's findings. On the basis of the CMA's own provisional conclusions, combined with the assumption that 3PLs take rational steps to maximise their expected profits, the Merged Entity would not have an incentive – whether viewed over the short, medium or long term – to increase prices or degrade services (**Section F.II.1**).

(53) In practice, the Modelling Analysis is conservative and significantly understates the costs the Merged Entity would have to incur if it raised prices or degraded its offering:

(a) if the Merged Entity allowed a new 3PL to win even a single opportunity for a typical dedicated Grocery warehouse, the 3PL could establish the necessary track record to compete effectively across the whole Grocery dedicated warehousing segment. This could be expected to lead to the new 3PL capturing additional business from the Merged Entity, either from the same customer (e.g. for new sites or contract renewals) or from other Grocers (**Section F.II.22**Error! Reference source not found.); and

(b) the Modelling Analysis also assumes that the Merged Entity could raise prices to exactly the point at which each Grocers would be willing to switch to insourcing or DHL. In reality, the Merged Entity would lack this level of visibility, increasing the risk of losing business if it increased prices or reduced its service quality. This would introduce additional downside risks that would further outweigh any potential upside from such a strategy (**Section F.II.3F.II.3F.II.3**).

1. The Modelling Analysis demonstrates that, on the basis of the IR's provisional conclusions, the Merged Entity could not profitably increase prices or reduce service quality post-Merger

(54) The following paragraphs present an overview of the Modelling Analysis and findings; further details of Frontier's methodology and calculations, along with additional sensitivities, can be found in **Annex 001** and **002.**

a) Analytical Framework

(55) To assess the collective implications of the IR's findings, Frontier's model analyses whether the Merged Entity could profitably raise prices or reduce services[50] in the first of two consecutive five-year[51] contract tenders[52] (***Period 1*** and ***Period 2*** respectively), taking into account the potential risk of encouraging entry by a competing 3PL. The model reflects the trade-off that the Merged Entity would face between short-term benefits and longer-term costs when considering price increases:

(a) If the Merged Entity increased prices in Period 1, it could potentially earn higher short-term margins, *provided* it did not raise prices to a level that would immediately prompt customers to switch to self-supply or DHL.

(b) However, as the IR recognises, increasing prices would also create long-term costs by encouraging customers to support the entry and expansion of rival 3PLs, thereby increasing the risk that customers would switch to these new providers in Period 2 and beyond.

(56) The Merged Entity would only have an incentive to increase prices if the expected short-term increase in profits in Period 1 exceeded the expected reduction in profits in Period 2 (in net present value terms). In practice, this trade-off would depend on:

(a) The amount of headroom available to increase prices in Period 1 without triggering insourcing or switching to DHL. This effectively would place an upper limit on the short-term benefit the Merged Entity could achieve through price increases.

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50 Consistent with the CMA's terminology in the IR, the hypothetical "price increase" refers to an increase in the fees charged by the Merged Entity. For an open-book contract, this could include the management fee (typically between [0-10]% for Grocery customers) and/or bonus payments negotiated for achieving cost efficiencies under a gainshare arrangement. While the Modelling Analysis considers a price increase, its conclusions also extend an equivalent reduction in service quality, such as reduction in the level of cost saving that the Merged Entity is willing to underwrite or pass through.

51 As set out in previous submissions, the duration of Grocery CLS contracts varies from contract to contract, but typically lasts three to five years. In the interests of being conservative, Frontier's modelling took the upper end of this range and assumed a five-year contract length – meaning that 3PL entry/expansion in Period 2 would occur five years after the Period 1 price increase. This is conservative because assuming rival 3PL entry/expansion after, for example, three years (rather than five years) would reduce the profitability of a price increase strategy.

52 Modelling is carried out at the customer level rather than the individual warehouse level to align with the CMA's analysis in Appendix C to the IR.

(b) The likelihood that the customer would switch to a new 3PL or DHL in Period 2 if the Merged Entity increased prices in Period 1. This determines the expected long-term cost of raising prices.

(57) Frontier's model analyses this trade-off in two stages:

(a) **Modelling the maximum short-term benefit in Period 1**. In this stage, the model assumes that the Merged Entity has perfect information regarding each Grocer's preferences and increases prices as much as possible without causing them to switch immediately. In other words, it sets prices at the maximum feasible level, constrained by two competitive factors identified in the IR:

(i) **Insourcing**. The Merged Entity would not increase prices beyond the level at which customers would find it more cost-effective to insource services (calculated using the figures set out in the IR);[53] and

(ii) **In-market competition**. The Merged Entity would not increase prices beyond the level at which customers would switch to DHL. For illustrative purposes, the model conservatively assumes that there is headroom to raise fees (which for an open-book contract would include the management fee and possibly bonus payments) by up to 50% post-Merger before triggering customers to switch, which is highly conservative given the closeness and credibility of DHL as a competitor, and the constraint DHL itself faces from self-supply and the threat of new entry.[54]

(b) **Modelling the expected long-run cost in Period 2**. If the Merged Entity increases its prices without justification in Period 1, it risks incentivising customers to support the entry or expansion of rival 3PLs. This means that:

(i) any Period 1 price increases are likely to be reversed in Period 2 as competitive pressure intensifies; and

(ii) there is a heightened risk that customers will switch to a new 3PL or DHL in Period 2, resulting in a costly loss of business and profit for the Merged Entity.

(58) Following this approach, Frontier has calculated the short-term increase in margins and long-term reduction in costs for each Grocery customer. The results depend on two key factors:

(a) The proportion of outsourced efficiencies that the customer can achieve through self-supply. This determines the extent to which the Merged Entity

53 IR, Appendix C, Table C.2.

54 Standard economic models would predict that for a pure "3-to-2" merger in a bidding market (without any prospect of countervailing entry/expansion etc), equilibrium prices could increase by up to 50% in the most conservative scenario. This implies that if either supplier sought to increase prices by more than 50% in this scenario customers would switch. In using 50% for the modelling exercise, Frontier's approach is a highly conservative, since it ignores other competitive constraints besides DHL acting on the Merged Entity (e.g. the threat of countervailing entry/expansion by other 3PLs or insourcing). For further information, please refer to **Annex 001**.

can increase prices without triggering customer switching to insourcing, thereby affecting the size of the short-term benefit.

(b) The probability that a customer, having supported the entry or expansion of a rival 3PL in response to a Period 1 price increase, would switch to that 3PL or DHL in Period 2.

b) The results show that the Merged Entity would have no incentive to increase prices

(59) Following the methodology above, Frontier has calculated the number of Grocery customers for whom the Merged Entity would have an incentive to increase prices under different assumptions about these two key factors. **Table 1** shows results of this analysis.[55] Each cell in this matrix shows a count of the number of GXO Grocery customers for whom the short-term benefits of a price increase outweigh the long-term costs – meaning the Merged Entity would, according to this model, have an incentive to increase prices in Period 1. For the reasons outlined above this will be a function of:

(a) The proportion of 3PL efficiency savings that the customer can achieve if it insources – represented by the **columns** in the matrix, ranging from 0% to 100%.

(b) The probability of the Merged Entity retaining the contract in Period 2 if it increases prices in Period 1 and thereby stimulates entry by rival 3PLs – represented by the **rows** in the matrix, ranging from 100% to 0%.

Table 1. Counts of the number of customers for which the Merged Entity would have an incentive to increase prices in Period 1 in a scenario in which the Merged Entity has full visibility of customer preferences

		Proportion of 3PL efficiency savings that customer can achieve if it insources										
		0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Probability of the Merged Entity retaining the contract in Period 2	100%	5	5	5	5	4	0	0	0	0	0	0
	90%	5	5	5	3	2	0	0	0	0	0	0
	80%	5	4	3	2	0	0	0	0	0	0	0
	70%	2	2	1	0	0	0	0	0	0	0	0
	60%	1	1	1	0	0	0	0	0	0	0	0
	50%	0	0	0	0	0	0	0	0	0	0	0
	40%	0	0	0	0	0	0	0	0	0	0	0
	30%	0	0	0	0	0	0	0	0	0	0	0
	20%	0	0	0	0	0	0	0	0	0	0	0
	10%	0	0	0	0	0	0	0	0	0	0	0
	0%	0	0	0	0	0	0	0	0	0	0	0

Source: Frontier, building on CMA calculations set out in the IR.

*Note: This scenario assumes that the Merged Entity has full visibility of customer preferences and can set prices at levels that will avoid customer switching to DHL or insourcing in either Period 1 or Period 2. The model's conclusions are even more robust if less than full visibility is assumed, see Section F.II.3 below. See **Annex 001** and **002** for methodology, calculations and sensitivity checks.*

(60) As **Table 1** above illustrates, for the large majority of parameter combinations (represented by the green cells), the Merged Entity would not have an incentive to increase prices for any Grocery customers. In fact, the analysis shows that the Merged Entity would have no incentive to increase fees for any Grocery customers in any scenario where there is at least a 50% chance that customers – having

[55] While the analysis focuses on GXO's Grocery customers, given the customer overlap between the Parties, it also considers Wincanton's largest Grocery customers.

supported new entry/expansion in response to a Period 1 price increase – would follow through and switch to the new 3PL (or alternatively to DHL) in Period 2.

(61) In reality, based on the IR's factual findings and Grocers' particular strength and sophistication as procurers of services, there is a high likelihood that customers would switch to the new 3PL or DHL in response to the Merged Entity increasing prices in Period 1 given that:

(a) The Merged Entity will compete against two viable alternatives, DHL and the new 3PL, which would have had sufficient time to build a positive track record by Period 2.[56]

(b) An unjustified increase in fees by the Merged Entity would significantly damage the Merged Entity's reputation and standing (i.e. its "*track record*") with customers.[57] While the Parties do not consider "*track record*" to be an insurmountable barrier to entry, this reputational damage would – on the IR's assessment – place the Merged Entity at a significant disadvantage relative to both DHL and the new 3PL.

(62) The Parties also consider it likely that customers can achieve a high proportion of outsourced efficiencies through self-supply (meaning that outcomes are more likely to be towards the right-hand side of the **Table 1** above). This is because:

(a) as the IR notes, benchmarking evidence points to similar outcomes for outsourced and insourced sites;[58] and

(b) as explained in **Section G.II.2**, the new Grocery sites or "*change projects*" that the IR hypothesises may be an exception to this, are relatively rare.

(63) To test the robustness of these results, Frontier has carried out sensitivity tests that modify the IR's assumptions. For example, the tests consider the effect of including 3PL cost underwrites as part of the efficiency savings that customers might partially lose if they switch to insourcing. As shown in **Annex 001**, these sensitivity tests do not materially affect the results; the overall conclusions remain unchanged.

(64) Furthermore, these conclusions remain unchanged, even when accounting for the "hard to quantify" benefits outlined in the IR.[59] Even under the conservative assumption that these benefits make all Grocers reluctant to insource, the Merged Entity would still have no incentive to raise prices unless it was at least 50% certain that doing so would not prompt Grocers to switch to a new 3PL or DHL in Period 2.[60] As set out above at paragraph (61), it is unlikely that the Merged Entity could achieve this level of certainty, given the high likelihood that customers would switch to the new 3PL or DHL in response to the Merged Entity increasing prices in Period 1.

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[56] The IR finds that entry by a new 3PL will be likely, but will not occur to a sufficient extent within the timeframe set by the MAGs: IR, paragraph 6.42. This model assumes that the new 3PL will be a credible alternative to the Merged Entity five years after the start of Period 1.

[57] As previously noted, Grocers have at times used their strong position to terminate mid-contract compounding the pressure on 3PLs to ensure they maintain prices and service levels to avoid advancement of a rival ([Redacted] switch from [Redacted] to [Redacted]). Post-ISM proactive paper, paragraph 3.13.

[58] See also, Frontier Insourcing Paper (Updated) dated 14 January 2025.

[59] IR, Appendix C, C.32.

[60] See **Annex 001**.

(65) For these reasons, the CMA's own provisional conclusions – when brought together under a single analytical framework – collectively imply that it would be unprofitable for the Merged Entity to increase its prices at any point post-Merger.

(66) Moreover, for the reasons explained below, the Modelling Analysis is conservative in several respects, and in practice, understates the potential downsides for the Merged Entity of raising prices or degrading its offering.

2. The Modelling Analysis is conservative and does not take long-term considerations into account

(67) The only significant barrier to entry identified in the IR – "*track record*" – is fragile, as it takes just "*one or a small number of customers to encourage entry*".[61] Even if the Parties *could* degrade service levels or increase prices in a tender opportunity in the short term (e.g. in the next contracting period), Grocers could easily support the advancement of another 3PL should they see it advantageous to maintaining competitive dynamics.[62]

(68) Indeed, this is why Iceland switched to GXO in 2016, despite GXO's limited track record in servicing Grocery customers.[63] GXO went swiftly on to [Redacted] and [Redacted] in the Grocery food sector [Redacted], to now become (in the CMA's view) one of three key players servicing Grocery customers. It is not mere hypothesis that this could happen again: the CMA has been informed that [Redacted] has already met with [Redacted] to explore future options – and expects that [Redacted] could also [Redacted] sponsor new entry. Indeed, the CMA itself accepts that entry is likely.[64]

(69) The result of this dynamic is that any hypothetical short-term financial gain would be quickly lost in the longer term to advancement by another 3PL – irrespective of whether that entry is timely or sufficient (which it would be). Once the new 3PL has established the necessary "*track record*", it could compete effectively with and potentially take business from the Merged Entity – either from the same customer (e.g. for new sites or contract renewals after Period 2) or from another Grocer. Therefore, every tender opportunity is "*high stakes*" for the Parties.[65]

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61 IR, paragraph 6.27.

62 For example, in non-Grocery Retail, [Redacted] awarded a £[Redacted]m p.a. warehouse in 2025 to [Redacted], which GXO also tendered for. GXO understands that this was due to a strategic decision to award the contract to another 3PL in the UK to maintain a two 3PL per major market strategy to reduce risk.

63 With respect to the IR's doubts as to whether GXO could be considered a "new entrant" (IR, paragraph 6.22): GXO was a part of XPO at the time of the Iceland contract win, and XPO itself did not have any significant experience in Grocery. Furthermore, as demonstrated at paragraph (101), whether or not GXO had an experienced leadership team, this was not an anomaly as many 3PLs have executives with significant experience in Grocery. The example should also not be dismissed on the basis that it happened approximately eight years ago. Given average contract terms of up to five years, GXO's entry occurred less than two tender periods ago and is therefore still relevant.

64 IR, paragraph 6.42.

65 This is a fact not sufficiently taken into account of by the Grocers that expressed concerns with the Merger. Indeed, 4 out of 5 Grocery customers that raised concerns ([Redacted]) have not completed a warehousing tender with a value of over £20m in the previous five years and are therefore less likely to be familiar with the capabilities and experience of other 3PLs who, as described in this Section, have been able to develop "track record" in adjacent sectors and in other jurisdictions. While the remaining Grocer ([Redacted]) recognises that there are fewer viable providers for warehousing than transport at a national scale, it does not claim that GXO, DHL and Wincanton are the only viable providers. In contrast, of the three Grocers who did not raise concerns about the Merger, [Redacted] and its assessment of the Merger should be given greater relative weight.

(70) In addition, increasing prices for a single Grocery contract could have broader implications for the relationship with the Grocer. The Grocer may become more likely to insource future contracts or sponsor the entry of a new 3PL using a different warehousing contract.

(71) By considering a price increase strategy for each customer in isolation and limiting losses to those in Period 2 – whereas in reality losses would occur in all future periods – the Modelling Analysis does not consider the wider risks/costs that a price increase could create for the Merged Entity, and therefore overestimates the profitability, and the Merged Entity's incentives, of raising prices in Period 1.

3. The Merged Entity could not exploit differences between Grocers through price discrimination

(72) The Merged Entity could not profitably raise prices or degrade its offering in the short-term post-Merger, as it cannot accurately identify or target Grocers who perceive other options as inferior. As a result, the potential downside risks significantly outweigh the limited potential upside:

(a) *The potential upside is small.* As set out above, only a small number of Grocers outsourcing a handful of warehouses claim DHL and the Merged Entity to be their only viable options. Even then, all but one Grocer would consider alternatives if given sufficient reason.

(b) *The potential downside is significant.* The Merged Entity could not accurately target customers who have told the CMA that self-supply and other 3PLs are inferior choices, as these views depend on idiosyncratic preferences that would not be known to the Merged Entity.

(c) If the Merged Entity were to raise prices, it would therefore have to do so on an untargeted basis, further increasing the risk of losing a significant volume of business with Grocers who could and would switch to other options.

a) The Merged Entity could not accurately target customers based on their subjective perceptions of available choices

(73) The IR's provisional conclusion rests on a finding that the Merged Entity could raise prices or degrade service levels for an identifiable group of Grocers who are unable or unwilling to switch to self-supply or an alternative 3PL (other than DHL), or sponsor entry. Indeed, as the customer feedback reported by the CMA in the IR itself clearly illustrates, Grocers have a diverse range of views regarding the strength of existing 3PLs and their willingness to sponsor new entry or self-supply.

(74) To exploit Grocers' inability or unwillingness to switch to alternatives, the Merged Entity would require information on how willing each Grocer is to: (i) switch to DHL; (ii) sponsor new entry; (iii) switch to self-supply; or (iv) punish a 3PL by moving business elsewhere once new entry restores choice. In addition, the Merged Entity would need to know whether DHL would react by raising prices or taking market share.

(75) Although the IR recognises that the risk of losing to a new entrant or a customer encouraging entry creates uncertainty, it provisionally finds that this only constrains

incumbent 3PLs "*to some extent*". It reaches this finding on the basis that 3PLs invest time in understanding a customers' requirements and have previously been able to guess the most credible competitors in a given tender.[66]

(76) This finding does not adequately account for the effect of information asymmetries between a 3PL and its customers. While 3PLs work hard to understand their customers and competitors and make a best guess based on what they know about each Grocer and project (e.g. new sites or major change projects), the Merged Entity would face a significant degree of uncertainty. Each Grocer's view on its willingness to switch to DHL, self-supply, or to sponsor entry depends in large part on its individual preferences which change over time. As the IR confirms, a Grocer's willingness to self-supply depends on each customer's attitude on certain topics[67] and an assessment of a range of qualitative factors that would be inherently difficult for the Merged Entity to capture in its assessment of customers' incentives.[68] Equally, the extent to which each Grocer would seek to discipline an incumbent 3PL for raising prices once choice has been restored is difficult for the Merged Entity to predict in advance, as it turns on each individual Grocer's attitude and negotiating strategy. The IR confirms that customers only intentionally share information with 3PLs if and when it is in their interests to do so.[69] It would clearly not be in Grocers' interests to share information about their preferences in a way that would allow the Merged Entity (and 3PLs) to price discriminate against those Grocers. Grocers in particular are savvy negotiators and would preserve and exploit information asymmetries to their maximum commercial advantage.

(77) Grocers' preferences are also not correlated with their capability to switch to alternatives. For example, in relation to self-supply:

(a) [Redacted] has strong inhouse capabilities [Redacted]. [Redacted],[70] which already runs [Redacted] dedicated Grocery warehouses. And yet, [Redacted] raised the most vocal concerns about self-supply, claiming - implausibly in the Parties' view - that switching its [Redacted] warehouses to [Redacted] when their current contracts ended would be a "*very big cultural shift*", and it would likely have to accept a 5% price rise;[71]

(b) [Redacted] also has extremely strong inhouse capabilities. It operates [Redacted] dedicated warehouses inhouse;

(c) [Redacted] and [Redacted] also operate significant proportions of their networks inhouse: [Redacted] self-supplies [Redacted] dedicated warehouses, and [Redacted]; and

(d) at the other end of the spectrum, [Redacted] does not self-supply any dedicated UK warehouses today, and yet confirmed it was capable of doing so given it owns relevant assets and has significant internal expertise and knowledge of logistics.[72]

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66 IR, paragraph 6.36.
67 IR, paragraph 5.70.
68 IR, paragraph 5.73.
69 IR, Appendix C, paragraph C.33.
70 See more about [Redacted] capabilities at [Redacted].
71 IR, paragraph 5.62(c).
72 IR, paragraph 5.59(a).

(78) This is further illustrated by contrasting GXO's views on how difficult it thought it would be for its customers to self-supply their dedicated Grocery facilities with those customers' feedback in the IR. As a part of GXO's insourcing incentives analysis, GXO assessed the characteristics of each customers' warehouses and operations and reached a tentative view on how easily it could insource each facility. Although GXO does not operate any dedicated Grocery warehouses for [Redacted] or [Redacted], it considered the four warehouses it operates for [Redacted] and [Redacted] to be easy for those customers to insource.[73] The Merged Entity therefore clearly cannot accurately predict whether – or to what extent – it could raise prices before customers would switch to self-supply, DHL or another 3PL. There is even greater uncertainty as to how Grocers would react in the long-term, should the Merged Entity raise its prices or degrade its offering without economic justification.

(79) For example, in relation to insourcing, the high prevalence of self-supply across dedicated Grocery warehouses ([70-80]%[74] are insourced) and GXO's analysis of the costs and benefits[75] both indicate the trade-off between the benefits and costs of outsourcing is finely balanced. As a result, even a small price increase or service degradation without a clear justification could reasonably be expected to trigger a significant response, particularly given the sophisticated nature of these customers and their low tolerance for poor value.

b) **Operating in an environment of imperfect information would further deter the Merged Entity from increasing prices**

(80) The Merged Entity would need to determine its bid strategy for Grocery warehousing opportunities on the basis of imperfect information, where the downsides of a miscalculation are high. The risk is exacerbated by the lack of transparency (from the Merged Entity's perspective) regarding its competitors' conduct, and the infrequency and significant value of each tender opportunity. The Merged Entity would need to assume that Grocers are considering DHL and self-supply as viable alternative options, as well as other 3PLs, for example those with a track record in other market segments or countries.

(81) This means that if the Merged Entity were to pursue a price increase strategy in reality, it would likely shade down its price increases below the levels modelled by Frontier, so as to reduce the risk of it inadvertently overstepping the mark and causing some customers to switch – further reducing the profitability of a price increase strategy below the levels that Frontier has modelled. Even then, there would still be a risk of the customer insourcing or switching to DHL in response to the price increase, which again Frontier's baseline model does not consider.

(82) Error! Reference source not found. below illustrates how Frontier's modelling results change when one relaxes the assumption that the Merged Entity has full insight into each customer's preferences and their likelihood of switching suppliers or insourcing. Less than full insight would introduce a material risk that the prices it sets oversteps the mark and causes some customers to switch to DHL or insourcing, as well as triggering customers to support entry/expansion in subsequent contract

[73] Post Update Call Paper submitted 14 January 2025 (***Post Update Call Paper***), Annex A, Tab "Location by location assessment".
[74] See **Annex 003**.
[75] See Post Update Call Paper.

tenders. As shown in Error! Reference source not found. below, even if increasing prices led to only to a one-on-five (20%) risk of the Merged Entity losing business to DHL and/or self-supply in Period 1, this would be sufficient to eliminate any incentive for the Merged Entity to raise prices, even under the most conservative assumptions about the risk of the customer losing business following entry in Period 2.

Counts of number of customers for which the Merged Entity would have a short-run incentive to increase prices – scenario in which the Merged Entity has a 20% chance of losing business in Period 1 if it increases prices

Table 2. Counts of number of customers for which the Merged Entity would have a short-run incentive to increase prices – scenario in which the Merged Entity has a 20% chance of losing business in Period 1 if it increases prices

		Proportion of 3PL efficiency savings that customer can achieve if it insources										
		0%	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**	**100%**
Probability of the Merged Entity retaining the contract in Period 2	**100%**	2	2	1	0	0	0	0	0	0	0	0
	90%	0	0	0	0	0	0	0	0	0	0	0
	80%	0	0	0	0	0	0	0	0	0	0	0
	70%	0	0	0	0	0	0	0	0	0	0	0
	60%	0	0	0	0	0	0	0	0	0	0	0
	50%	0	0	0	0	0	0	0	0	0	0	0
	40%	0	0	0	0	0	0	0	0	0	0	0
	30%	0	0	0	0	0	0	0	0	0	0	0
	20%	0	0	0	0	0	0	0	0	0	0	0
	10%	0	0	0	0	0	0	0	0	0	0	0
	0%	0	0	0	0	0	0	0	0	0	0	0

[Redacted]*Source: Frontier Economics, building on CMA calculations set out in the IR.*

*Note: See **Annex 001** and **002** for methodology, calculations and sensitivity checks, including scenarios with an incumbency advantage.*

(83) To assess the robustness of these results, Frontier has conducted additional sensitivity tests – for example exploring how the results would change if there were additional "*hard to quantify*" benefits of outsourcing that the baseline model does not capture. For the reasons explained in Section G.II below, the Parties do not consider these "*hard to quantify*" benefits to be significant, but in any event, these sensitivity tests do not materially affect the results – the overall conclusions remain unchanged (see **Annex 001**).

G. Dedicated Grocery Warehousing – Submissions On The Evidence

(84) The IR makes several critical factual findings regarding Grocers' willingness to self-supply and switch to new 3PLs who do not yet have a UK-specific track record in dedicated Grocery warehousing, and 3PLs' willingness to expand into the segment. However, it uncritically accepts unsubstantiated claims made by five Grocers on calls with the CMA as fact, even when directly contradicted by a significant body of other more probative evidence.

(85) This Section sets out how the full range of evidence, including new evidence provided by the Parties to aid the CMA's assessment, demonstrates that:

(a) there is a strong case that entry will be both faster and more expansive than predicted in the IR's provisional findings (**Section G.I**); and

(b) the threat of self-supply is more widespread than the IR provisionally finds (**Section G.II**).

I. The IR underestimates the competitive constraint imposed by future entry and expansion of existing 3PLs

(86) The Parties acknowledge that GXO, Wincanton and DHL currently account for most of the major outsourced dedicated warehousing contracts for Grocery customers.[76] However, as explained in **Section F**, this is a fragile position. The threat of another 3PL quickly gaining ground in future tender opportunities acts as a disciplining factor to ensure that the Parties provide a competitive bid – in both price and quality – in each and every tender.

(87) The history of GXO's growth and evidence of Grocers already exploring alternatives demonstrates the vulnerability of "*experience and track record*" as an alleged barrier to entry and expansion. Numerous 3PLs have a basis on which to swiftly build upon the experience and track record they already have to (more) credibly challenge the Parties in Grocery tenders. As GXO's history demonstrates, it only requires one material contract to shatter this barrier.

(88) As explained by the rest of this Section:

(a) "*Track record*" is not an insurmountable barrier to entry, but a flexible concept and many 3PLs would be quickly able to demonstrate the many factors identified in the IR as evidencing "*track record*", in particular as Grocers are likely to adjust their "*track record*" requirements to allow a broader range of 3PLs to participate in tenders should the Merged Entity increase prices or degrade services post-Merger (**Section 1**).

(b) Correspondingly, the IR is correct to find that, were the Parties to increase prices or degrade services post-Merger, new entry would be likely – however, the IR underestimates the speed at which this new entry would occur, and its sufficiency at constraining the Parties (**Section 2**).

[76] IR, paragraph 5.36.

1. A number of 3PLs are already able to demonstrate elements of "track record"

(89) The IR alleges that Grocers' "*preference for 3PLs with a strong track record*" creates a "*material barrier to entry for those suppliers that have not already developed a credible UK track record*".[77]

(90) While the Parties acknowledge that Grocers take the "*track record*" of a 3PL into account when assessing the competitiveness of a bid, the IR fails to demonstrate that there is a consistent recognition among Grocers of what constitutes "*track record*". In reality, "*track record*" can be demonstrated in various ways:

(a) With respect to evidence provided to the CMA by Grocers:

(i) one Grocer refers to track record in relation to food supply ([Redacted]);[78]

(ii) one Grocer refers to track record in relation to experience with customers of a similar size ([Redacted]);[79] and

(iii) while Grocers' responses imply that the UK track record is particularly relevant, none acknowledged this as a specific requirement. Notably, [Redacted] invited [Redacted] to participate in a tender despite its less prominent UK grocery experience.[80]

(b) The picture is similarly mixed with what competitors consider to constitute "*track record*":

(i) three competitors referred generally to experience or references/case studies ([Redacted]);

(ii) one competitor referred generally to building relationships and reputation ([Redacted]); and

(iii) two competitors noted that that they did not identify any material barriers to entry ([Redacted]).[81]

(91) Similarly, questions on "*track record*" in Requests for Proposals (***RFPs***) are often broad (e.g. referring to experience with similar sites), allowing for varied responses, and often acknowledge that experience does not need to be dedicated Grocery (or UK) warehousing specific. Where questions are more targeted, this is typically to assess a 3PL's capabilities in specific areas, such as automation or large TUPE transfers.

(92) Many 3PLs (which include CEVA, Culina, ID Logistics, Metro Supply Chain and XPO) can already evidence "*track record*" in various ways, including by reference to: (i) prior or other warehousing experience with UK Grocers; (ii) senior staff from

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77 IR, paragraph 5.77.
78 IR, paragraph 6.11(a)(i).
79 IR, paragraph 6.11(a)(ii).
80 IR, paragraph 6.11(a)(ii).
81 IR, paragraph 6.13. The fact that an [Redacted] internal document referred to "*track record and pedigree of sector*" as a "*primary section factor*" is not evidence of "*track record*" being a barrier to entry. Rather, it suggests that this is one of a number of factors that may be balanced by a customer when considering different bids (see footnote 110 for more detail).

experienced incumbents; (iii) experience in Grocery in other jurisdictions; (iv) through other contractual relationships with UK Grocers; or (v) experience in adjacent segments. Indeed, reflective of this, both [Redacted] and [Redacted] consider there to be no material barriers to entry – with [Redacted] specifically noting that it considers entry to be "*pretty easy*".[82]

(93) While UK Grocery specific track record may be more compelling in certain tender processes, the IR overstates what is **required** by referring to (cumulatively) "*a track record in the same sector, and in managing customer logistics operations of similar size and complexity in the UK*".[83] In reality, "*track record*" requirements considered by Grocers[84] are not strictly defined and are naturally weighed against other criteria by customers when considering the competitiveness of bids. Faced with potential price increases or degradation in services, Grocers are likely to adjust their "*track record*" requirements to consider a broader range of 3PLs.

(94) Indeed, the IR assumes that the absence of other 3PLs winning major Grocery tenders at present is evidence that they do not possess any of the essential elements of "*track record*". In doing so, the IR does not reflect that Grocers are currently well-served by existing providers and receive high-quality service at competitive prices. As a result, Grocers have limited incentive to choose or trial 3PLs with a shorter track record or less directly relevant experience at present – i.e. there is no need or incentive for Grocers to consider switching away from DHL, GXO and Wincanton when the service offering is competitive.

(95) Equally, 3PLs have had limited incentives to compete aggressively for Grocery tenders or leverage their existing experience to expand into large dedicated warehousing contracts given the low margins in the sector. The fact that [Redacted] and [Redacted] declined a request to participate in tenders by [Redacted] and [Redacted] is reflective of these limited incentives.

(96) In reality, these incentives would change if Grocers were faced with the possibility of a price increase or degradation in services by the Merged Entity – and many 3PLs would be quickly able to demonstrate the many factors identified in the IR as evidencing "*track record*".

(97) The following Sections set out how a number of 3PLs could easily prove their "*track record*" in future tenders.

a) **Prior or other warehousing experience with UK Grocers**

(98) Many 3PLs currently provide - or have previously provided - CLS at Grocers' UK warehouses. As the fundamental characteristics of Grocery warehousing – including high SKU volumes and variety, tight turnarounds, frequent peaks and troughs, large spaces and perishable products – persist, this experience is clearly demonstrative of a "*track record*" that is relevant to the assessment today of a 3PL's ability to effectively manage a large dedicated warehouse. Indeed, track record is inherently retrospective and necessitates looking at a 3PL's experience beyond its current

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82 IR, paragraph 6.14.
83 IR, paragraph 6.14.
84 For the avoidance of doubt, the Parties acknowledge that "track record" requirements may be stricter in other markets, such as the provision of warehousing services to aerospace and defence or life sciences customers.

contracts. The following examples clearly demonstrate 3PLs' track record in Grocery warehousing:

(a) **CEVA** has previously run a distribution centre for Tesco in Middlewich[85] and provided overfill warehousing space for Ocado's Grocery customer fulfilment centre.[86]

(b) **CML** (a subsidiary of **Culina**) has had a relationship with Aldi since at least 2011 and, more recently, Lidl. Culina has upstream consolidation centres in Telford (since 2009)[87] and Lutterworth (since 2024)[88] which provide chilled, frozen and ambient supply chain services to Aldi and Lidl's major distribution centres. In FY23, CML's Telford operation generated turnover of £71.4m[89] – evidencing its ability to conduct large-scale food Grocery contracts.

(99) Furthermore, some 3PLs have existing experience from providing modularised warehouse services to Grocers. Indeed, Grocers are well-placed and willing to split their warehousing CLS needs between suppliers: each Grocer's business model includes multiple warehouses operated separately with limited staff transfer between sites[90] and minimal benefits from economies of scale strategies.[91] As a result, Grocers can test out a subset of operations on smaller or less well-known suppliers and this use of multi-sourcing exerts increased competitive pressure on incumbent suppliers.[92] For example, [Redacted] has successfully deployed this strategy using [Redacted] to operate its [Redacted] warehouse and has had a longstanding relationship with [Redacted] since 2002.

b) Hires of senior staff from experienced incumbents

(100) The IR recognises that 3PLs can accelerate entry by hiring "*experienced staff from incumbent providers*".[93] However, as a result of TUPE and the utilisation of agency labour,[94] it is central management staff (who do not transfer under TUPE) that are most relevant to a 3PL demonstrating their credentials or experience. Indeed, the IR itself suggests that GXO's expansion into the Grocery segment may not have constituted a *new* market entry, given that (among other factors) it had an experienced management team prior to securing the Iceland contract.

(101) On this assessment, there are a number of 3PLs that have benefited from frequent movements of executive staff – many with specific Grocery experience - between 3PLs and would be well placed to win large Grocery contracts as *existing* Grocery 3PLs. Indeed, the movement of senior staff across 3PLs and between 3PLs and

85 Food Manufacture, "*130 jobs at risk at distribution centre for Tesco*" (8 April 2013), available here.
86 Ocado, "*Ocado Retail Limited Grocery Supplier Manual*" (January 2022), available here.
87 St Mowden, "*CML Logistics to take full occupation of Brockton Business Park*" (7 October 2011), available here.
88 Food Manufacture, "*Aldi and Lidl supported with £2m UK consolidation centre*" (27 August 2024), available here.
89 CML F & L [TELFORD] LTD, "*Full accounts*" (26 September 2024), available here. Note that CML provides a holistic logistics solution which includes transport services as well as warehousing.
90 Post Update Call Paper, Section 3.
91 P1DR, Section 6, A(iv).
92 P1DR, paragraph 5.17.
93 IR, paragraph 6.40.
94 Employees with operational know-how regarding a specific warehouse are a part of the group of employees who must, by law, TUPE across with the warehouse contract when the customer switches 3PLs. Additionally, 3PLs frequently utilise agency labour to supplement their core employees. This allows 3PLs to maintain a core operational workforce for a large Grocer's warehouse and to rely on temporary agency staff to mirror customers' demand cycles.

Grocers is a very common occurrence. In addition to the examples already provided to the CMA,[95] the Parties are aware of the following transfers:

(a) **Culina** recently (in February 2025) appointed Liam McElroy as CEO. Mr. McElroy has over 30 years of experience, including leadership roles at DHL, Wincanton, and GXO, and serving as a regional distribution director for Tesco. As Managing Director for Retail and Consumer at Wincanton (2013-2019), he significantly expanded the company's Grocery logistics operations, increasing revenue by 50% in his first three years.[96] His appointment aligns with Culina's recent £2m investment in a consolidation centre in Lutterworth, supporting Aldi and Lidl's growth[97] — signalling Culina's focus on UK Grocery.

(b) **Unipart** hired Mike Bristow as their UK Managing Director in November 2024.[98] Mr Bristow has extensive industry experience from his work at DHL, where his roles included Operations Director to the UK Board and Managing Director. He also has significant experience in the Grocery sector, having held senior manager roles at Asda.

(c) **CEVA's** Managing Director for Contract Logistics in the UK, Huw Jenkins, has more than 20 years of relevant industry experience, including significant experience in Grocery warehousing, having worked as a General Manager for Asda, Transport Planning Manager for Iceland, as well as holding senior roles at DHL (where he was Vice President for public sector operations) and Wincanton (as Director of the General Merchandise Unit).[99]

(d) **XPO's** Managing Director for the UK and Ireland, Dan Myers, has held this role since 2014 and has extensive experience in the Grocery segment. Prior to his current role, Mr Myers ran the Temperature Control Business Unit within XPO Supply Chain (and Norbert Dentressangle prior to its acquisition by XPO), which included overseeing Grocery and Grocery supplier activities at a range of locations.[100]

(e) **ID Logistics** recently hired Ellie Riley as Head of Business Development in April 2024. Ms Riley has significant experience in the Grocery segment, having held several senior roles at XPO (prior to GXO's spin-off) and Wincanton. Ms Riley also has specific experience in business development, having previously served as Network Development Director at Wincanton and a Business Development Manager at XPO.[101]

(f) **Metro Supply Chain** has a leadership team with extensive UK CLS experience. Group President and CEO, Chris Fenton, spent more than 20 years at Wincanton, including as a Managing Director (2016-2020).[102] Similarly, Murray Brabender, President for Contract Logistics and Chief

95 For further examples of senior personnel who have moved across 3PLs, please refer to paragraph 2.18 of the Post-ISM Paper, and Annex 040 of the Merger Notice ('*Movement of operational and management staff between one 3PL and either another 3PL or an inhouse CLS team*').

96 The Grocer, "*Wincanton retail MD Liam McElroy Big Interview*" (6 June 2015), available here.

97 Food Manufacture, "*Aldi and Lidl supported with £2m UK consolidation centre*" (27 August 2024), available here.

98 Unipart, "*Mike Bristow appointed*" (November 2024), available here.

99 Huw Jenkins LinkedIn, available here.

100 Dan Myers LinkedIn, available here.

101 Ellie Riley LinkedIn, available here.

102 Chris Fenton LinkedIn, available here.

Operating Officer, previously held several management positions at DHL and Tibbett & Britten.[103]

c) Non-UK Grocery experience

(102) As noted at paragraph (90)(a)(iii) above, no Grocer cited in the IR refers to track record exclusively in relation to UK experience.[104] Indeed, despite its UK experience, GXO regularly refers to non-UK experience as part of its tenders to customers. For instance, in recent and ongoing tenders by [Redacted], [Redacted] and [Redacted] GXO relies extensively on its EU operations, in particular for [Redacted] in [Redacted],[105] [Redacted], to demonstrate its Grocery capabilities (as well as references for a range of other projects for non-Grocery customers).

(103) Many other competitors are well placed to similarly leverage non-UK Grocery experience in future bids with Grocers to demonstrate "*track record*". For example:

(a) **CEVA** has extensive experience servicing the global logistics operations of Carrefour – a major grocer in France.[106] CEVA also managed Tesco's warehouse and transport needs in Malaysia.[107]

(b) **ID Logistics** has experience of servicing a number of large European Grocers, including Auchan,[108] Carrefour, Metro,[109] Lidl,[110] Intermarché,[111] E Leclerc[112] and Eroski.[113] Of particular relevance: (i) in October 2024, ID Logistics signed a six-year warehousing contract with Intermarché in France, relating to a 52,000 sq. m. site supplying 87 Intermarché stores;[114] (ii) in

103 Murray Brabender LinkedIn, available here.

104 While Grocers may occasionally conduct site visits (IR, paragraph 6.11(b)), site visits are typically not a requirement in tenders. In addition, 3PLs may also offer to conduct site visits in non-Grocery sites. For example, GXO conducted site visits in a recent [Redacted] tender at [Redacted] and [Redacted] warehouses.

105 E.g. for [Redacted] tender with [Redacted], GXO [Redacted] its experience with [Redacted] and [Redacted] In addition: (i) [Redacted], GXO referenced its [Redacted] operations and provided an overview of its EU operations; (ii) for a warehouse in [Redacted], GXO highlighted its experience with [Redacted], and [Redacted]; and (iii) for [Redacted] tender for [Redacted], GXO is referencing its operations with [Redacted].

106 Suply Chain Magazine, "*Ceva Logistics fait son entrée chez Carrefour*" (7 September 2017), available here. Carrefour had gross sales of EUR42bn in FY2023. CEVA provides transport CLS to 60 Carrefour stores as well as ancillary warehouse services including reverse logistics. This relationship extends to Brazil where CEVA managed Carrefour's food distribution centre in Manaus. Tecnologistica, "*Ceva fecha contrato com Carrefour em Manaus*" (31 January 2008), available here.

107 FreightWaves, "*CEVA gains Tesco contract in Malaysia*" (13 January 2008), available here.

108 Auchan is a French supermarket chain with a revenue of EUR32.9bn in FY23. Auchan, "*2023 Annual Results*" (22 February 2024), available here.

109 ID Logistics, "*2021 Integrated Report*", at page 12, available here. Metro is a supermarket chain based in Germany with a revenue of EUR30bn in FY23. Metro, "*Annual Report 2022/23*", available .

110 Business Wire, "*ID Logistics: Another Dynamic Year With Annual Sales of €1,534 Million, up 10.0% on a Like-for-like Basis*" (27 January 2020), available here. Lidl is a European supermarket chain with a strong presence in the UK. In FY24 its revenue increased by 16.9% from the prior year to almost £11bn. Lidl, "*Lidl GB sees highest increase in shopper visits across the sector as it celebrates 30 years*" (20 November 2024), available here.

111 ID Logistics, "*ID Logistics supports Intermarché in the search for a site in the centre-east region, selects the site in Sain-Bonnet-Les Oules and thus maintains 200 jobs*" (29 October 2024), available here. Intermarchè is a supermarket chain based in France and owned by Les Mousquetaires. In FY23 Les Mousquetaires had an annual turnover of EUR 41bn. Les Mousquetaires S.A.S., "*Statutory auditors' report on the consolidated financial statements*", available here.

112 Cushman & Wakefield, "*E.Leclerc and ID Logistics collectively invest in warehouse space and green energy*" (6 October 2023), available here. E Leclerc is a supermarket chain based in France with a market share of 23.5% in France in FY23. Retail Detail, "*In France, E.Leclerc is the big winner of 2023*" (18 January 2024), available here.

113 Alimarket, "*ID Logistics inicia una nueva operativa para Eroski*" (27 May 2021), available here. Eroski is a supermarket chain based in Spain and had a revenue of EUR5bn in FY23. Eroski, "*Eroski in 2023: Review of the year*", available here.

114 ID Logistics, "*ID Logistics supports Intermarché in the search for a site in the centre-east region, selects the site in Saint-Bonnet-Les Oules and thus maintains 200 jobs*" (29 October 2024), available here.

January 2024, ID Logistics was chosen by Carrefour to manage a 42,000 sq. m. food products warehouse in Italy;[115] and (iii) in October 2023, ID Logistics was chosen by a "*world leader in the food industry*" to support it in the reorganisation of its logistics in the USA and open two refrigerated sites totalling 51,000 sq. m.[116]

d) Other experience with UK Grocers

(104) Beyond demonstrating required capabilities, 3PLs can use their experience of providing other services to UK Grocers to develop the relationship to supply future warehousing services. For example, a 3PL that has an existing relationship with Grocers through e.g. transport services, combined with experience in operating large, dedicated warehousing, is in a strong position when successfully tendering for dedicated Grocery contracts. In some cases, RFPs even explicitly ask about synergies with other contracts held with the Grocer, inviting 3PLs to leverage their experience in other services when applying for a warehousing contract.[117] For example:

(a) **Culina** has significant transportation contracts with [Redacted], [Redacted] and [Redacted], supplying transportation services to at least [Redacted] warehouses across all of the Grocers' networks.[118] Culina also has upstream distribution contracts with Tesco and Sainsbury's, with some warehousing at its Daventry site.[119]

(b) **Maersk** is a current shipping partner for many Grocers such as Tesco and Sainsbury's, and the Parties believe it is actively marketing these adjacencies in conversations with customers to gain a foothold to enter Grocery Retail.[120]

(c) **XPO** has provided transport services to Tesco from its regional distribution centre in Widnes since 2022, managing over 350 employees to deliver fuel to over 500 Tesco sites.[121] It is indicative that [Redacted].[122] As XPO's warehousing non-compete with GXO has now expired (August 2023), XPO is well placed to leverage this relationship to bid in Grocery warehousing tenders.[123]

(d) **Unipart** previously held a non-food warehousing contract with Sainsbury's from 2009 to 2018.[124] The ability for Unipart to leverage this existing relationship is clearly demonstrated by the fact [Redacted].[125]

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115 ID Logistics, "*ID Logistics: Accelerated growth in Q4, double-digit growth in 2023 revenues*" (24 January 2024), available here.
116 ID Logistics, "*ID Logistics: rebound in revenues growth in Q3 2023*" (24 October 2023), available here.
117 E.g., a recent RFP by [Redacted].
118 Annex H to Parties' response to CMA RFI 4 submitted 22 January 2025.
119 Motor Transport, "*Warrens Group joins Stobart in expanding Culina's DIRFT presence*" (13 February 2023), available here.
120 P1DR, paragraph 3.48.
121 XPO, "*XPO Logistics awarded Tesco contract for distribution of chilled foods*" (4 April 2022), available here.
122 IR, paragraph 6.13.
123 With reference to the internal document of [Redacted] cited in the IR which (i) notes "track record and pedigree" in the sector as the [Redacted] (IR, paragraph 6.13); and (ii) mentions that [Redacted] should focus on its core strength in Groceries (IR, paragraph 6.24(b)), this document is from [Redacted]. Its recent comments in the IR, [Redacted] should be reflective of its current view of [Redacted].
124 The warehouse was situated in Tamworth and sat at approximately 377k sq ft with 350 employees.
125 IR, paragraph 6.27.

(e) A number of companies provide transport services to Grocers, including **DFDS**,[126] **EV Cargo**,[127] **Supply Chain Solutions**[128] and **Maritime Transport**.[129] Indeed, the fact that [Redacted] has identified DFDS as [Redacted][130] further underlines its ability to leverage its skills in adjacent markets to enter Grocery warehousing.

e) Experience in adjacent markets

(105) When tendering for new business it is essential to provide a tailored business case which addresses the specific customer's needs.[131] It will rarely be the case that any 3PL is able to demonstrate experience which exactly mirrors the customer's requirements. 3PLs therefore regularly demonstrate their capabilities with reference to relevant experience in adjacent markets. For example, despite its Grocery experience, GXO's tender with [Redacted] in [Redacted] relied on projects from a range of sectors, including its warehouse for [Redacted] in [Redacted].

(106) There are a number of adjacent markets in which 3PLs can leverage experience from to demonstrate their capabilities. While the IR provisionally finds that there are "*certain characteristics that distinguish the requirements of Grocery customers from others*",[132] this only reflects that Grocery customers have a specific mix of needs that may not be present to the same extent with other customers. However, this does not exclude the possibility that some requirements of other customers (e.g. low levels of automation), are similar to those of Grocery customers. This allows 3PLs to use a number of non-Grocery contracts, each of which demonstrates their capabilities to service specific attributes of Grocery contracts, to showcase that they are capable of servicing Grocery customers.

(107) For example, while the IR finds that some of the main distinctions between CLS provided for Grocery and non-Grocery customers are the "*perishable nature*" of food products, temperature control and compliance with relevant regulations,[133] these requirements are similarly relevant to warehousing services provided to food manufacturers. Similar to Grocers, food manufacturers (i) face a heightened risk and cost of failure given the perishable nature of the products, and therefore require delivery to occur within tight timeframes; and (ii) must comply with the same temperature control and regulatory requirements.

(108) Many 3PLs are able to demonstrate experience servicing such customers. For instance (i) XPO is the logistics partner for Weetabix, winning a tender in 2023 to oversee two warehousing operations with 200 employees;[134] and (ii) Culina publicly positions itself as aligned to the food industry, recently reorganising its business strategy into three "*strategic pillars*" being Chilled, Ambient and Co-packing.[135] Culina operates eight of its own chilled warehouses for customers such as Delamere

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[126] DFDS, "*Logistics solutions & services*", available here.
[127] EV Cargo, "*EV Cargo Logistics Extends Sainsbury's Distribution Contract*", available here.
[128] Supply Chain Solution, "*Supply Chain Solution Ltd – UK*", available here.
[129] Maritime Transport, "*Maritime Transport secures major contract to manage Tesco's rail operations*" (27 November 2023), available here.
[130] IR, paragraph 5.44(b).
[131] Merger Notice, paragraph 200.
[132] IR, paragraph 4.20.
[133] IR, paragraph 4.17.
[134] XPO, "*XPO Logistics named to run Weetabix multi-warehousing operation and provide sustainable global transport solutions*" (7 February 2024), available here.
[135] Culina, "*Culina Group confirms Liam McElroy as new CEO*", available here.

Dairy, Haribo, innocent, Mondelēz (manufacturer of Cadbury, Belvita, Milka, Oreo, Philadelphia), Tyrells and Unilever.

(109) In addition, regarding the other specific features of Grocery customers identified in the IR, many retailers have warehouses that require a "*big space*", are "*a massive undertaking*", and often rely on a significant workforce with varying degrees of automation.[136] Both **CEVA** (which works with [Redacted])[137] and **ID Logistics** (which serves [Redacted])[138] have substantial warehousing contracts with retailers, providing them with the necessary experience to handle scale. Customer requirements vary significantly across these Retail contracts, enabling [Redacted] and [Redacted] to showcase their capabilities across a broad spectrum of needs.

(110) The above illustrates that there are a number of 3PLs (including CEVA, Culina, ID Logistics, Unipart, Metro Supply Chain and XPO) that would be able to demonstrate sufficient "*track record*" to challenge the Parties and DHL for Grocery tenders. Indeed, the absence of any request to satisfy all potential criteria of "*track record*" is evidenced by the activity of customers, including: (i) [Redacted] approaching [Redacted] (which has UK experience with [Redacted], but limited experience in food); and (ii) [Redacted] approaching [Redacted] (which has grocery experience, but not in the UK). Nonetheless, as demonstrated by Table 3 below, all 3PLs are able to convincingly demonstrate "*track record*" across a number of factors.

Table 3. 3PL's ability to demonstrate "track record"

Track record	CEVA	Culina	XPO	ID Logistics
Warehouse UK Grocery experience	✓	✓	✗	✗
Key senior staff	✓	✓	✓	✓
Non-UK Grocery experience	✓	✗	✗	✓
Other UK Grocery experience (e.g. transport)	✓	✓	✓	✗
Adjacent market experience	✓	✓	✓	✓

(111) In any event, the CMA's evidential basis for "*track record*" being a barrier to entry is limited. *Firstly*, the CMA relies on the (largely unsubstantiated) claims by a small number of customers and competitors, many of which do not specifically identify

136 IR, paragraph 4.17.
137 P1DR, paragraph 4.38.
138 P1DR, paragraph 4.44(e).

"*track record*" as a barrier to entry per se. Rather, "*track record*" is one of a number of factors balanced by Grocers when considering the competitiveness of bids, and will naturally be weighed with other criteria. *Secondly*, and relatedly, the IR does not identify the relative value of track record, for example by asking customers if they would accept non-UK grocery experience in exchange for more favourable contract terms.

2. The IR is incorrect in finding that entry would not be timely and sufficient.

(112) The additional evidence set out in **Section 1** above reinforces the IR's provisional conclusion that at least one competitor would be likely to enter or expand in the supply of dedicated Grocery warehousing services in the event that existing 3PLs degraded their offering.[139] However, the IR underestimates the ability of 3PLs to enter or expand in a more timely manner, and to a sufficient extent so as to prevent any potential SLC.

***a)* The IR understates the likelihood of potential entry or expansion**

(113) The IR provisionally concludes, on the basis of (i) there being limited evidence indicating that 3PLs have concrete plans to enter or expand into dedicated warehousing for Grocers;[140] but (ii) there already being evidence of a customer ([Redacted]) meeting with another 3PL, that entry or expansion is likely. However, the Parties consider that all evidence suggests that organic and/or sponsored entry or expansion will occur faster and more significantly than the IR suggests.

(114) There is significant evidence in the IR, as well as in 3PLs' market activities, indicating that multiple 3PLs, and in particular [Redacted], as well as a long tail of other 3PLs including [Redacted], are closely monitoring competition in dedicated warehousing for Grocers. Some are already taking steps toward entry and would likely accelerate this process if an opportunity arose as a result of the Merged Entity raising prices or degrading its services.

(115) While the IR claims that there is only limited evidence indicating that competitors have "*concrete plans*" to enter or expand (though not having ruled out entry or expansion),[141] this is based on current market conditions.[142] Indeed, the cited statements from [Redacted] and [Redacted] suggest that the current competitiveness of the Grocer sector – which results in low margins – may currently limit their incentives to enter. However, the prospect of increased margins – such as one driven by the Merged Entity hypothetically raising prices or degrading services post-Merger – could increase their motivation to enter the segment. Notably, [Redacted] confirmed that it was confident of getting into a position to bid for larger contracts within three to four years.[143]

(116) Further, as evidenced by Section 1 above, a number of 3PLs are already well-placed – and, through the hire of senior executives, further strengthening their position – to enter into Grocery. For example:

139 IR, paragraph 6.28.
140 IR, paragraph 6.26.
141 IR, paragraph 6.24.
142 IR, paragraph 6.26.
143 IR, paragraph 6.24.

(a) **Culina**. As set out in Section 1 above, Culina already has a significant foothold in the Grocery sector through its upstream logistics services in consolidation centres and transport relationships with Grocers. This is further corroborated by [Redacted].[144] In addition, Culina is actively pursuing Grocery tenders, for example: (i) [Redacted];[145] (ii) based on GXO's market intelligence, [Redacted];[146] and (iii) based on GXO's market intelligence, currently participating in a c.£[Redacted]m tender for [Redacted] and invited to an ongoing tender for [Redacted]. If there was any doubt about Culina's ambition in Grocery, Culina's recent CEO appointment (noted at paragraph (101)(a) above) makes this clear.

(b) **CEVA**. Only minimal evidentiary weight should be placed on CEVA's post-announcement internal document that states [Redacted][147] This is consistent with the CMA's practice to place limited weight on internal documents prepared by competitors [Redacted].[148] By contrast, CEVA's bid for Wincanton is unequivocal evidence of its intention to build its reputation in Grocery. Indeed, CEVA acknowledged this in its bid offer, stating that one of the strategic goals for purchasing Wincanton was to "*build on Wincanton's proven expertise in partnering with prominent Grocers*".[149] Given the legal (including criminal) repercussions of including misleading or incorrect information in offer documents, this statement carries significant evidentiary weight – and should be given more weight than the statement in CEVA's internal document which were [Redacted].[150] Further, [Redacted]. This, in addition to the significant Grocery experience of Huw Jenkins, CEVA's Managing Director for Contract Logistics in the UK (set out above at paragraph (101)(c), is further evidence CEVA's intentions to expand into Grocery.

(c) **XPO**. As previously explained by the Parties,[151] when GXO was spun out of XPO in August 2021, it was considered that XPO would focus on its global freight transportation services. Since the expiry of XPO's CLS non-compete in August 2023, XPO has begun to [Redacted]. For example, in 2023, GXO lost a contract opportunity with [Redacted] to XPO – and GXO also understands that XPO participated in the [Redacted] tender [Redacted], and GXO considers it is likely to be [Redacted].[152]

(d) **ID Logistics**. While ID Logistics' internal document states that "food retail" is not a "core target vertical", its statements that it is confident of "getting into a position to bid for larger contracts"[153] and that it considers the UK to

[144] IR, paragraph 6.13.
[145] [Redacted].
[146] As set out in IR, Appendix B, paragraph B.15, [Redacted] ran a single tender, and awarded separate parts of the contract to each GXO, Wincanton and DHL.
[147] IR, paragraph 6.24(c).
[148] [Redacted].
[149] London Stock Exchange, "*Recommended Cash Offer for Wincanton Plc*", (19 January 2024), available here.
[150] The IR acknowledges that CEVA's bid for Wincanton may impact its stated views on the relevant market(s) and competitive conditions. IR, paragraph 5.43.
[151] See, P1DR, paragraph 4.34.
[152] As noted at footnote [Redacted]123, this [Redacted] has greater evidentiary weight than the statements in [Redacted] internal document.
[153] IR, paragraph 6.24.

be a "*highly strategic market*"[154] are consistent with intentions of leveraging its broad Grocery experience outside of the UK (as explained at paragraph (103)(b) above) to grow its UK Grocery offering.

(117) Therefore, while the CMA may not have identified evidence of "*concrete plans*", market conduct and credentials demonstrate that there are a number of 3PLs that have the incentive and ability to rapidly seek entry into the Grocery segment if the Merged Entity were to raise prices or degrade its services.

b) **Entry will be timely**

(118) The IR provisionally concludes entry or expansion by another 3PL will not be "*timely*" given the need for a new entrant to establish a track record to win a larger Grocery contract, which is "*likely to take more than two years*".[155] The IR overestimates the time it would take for another 3PL to win[156] a larger Grocery tender for a number of reasons. The Parties present new evidence below which shows that entry will be significantly quicker than the IR anticipates.

(119) *First*, as explained in Section 1 above, Grocers do not have a consistent view of what they consider to be "*track record*" – and, in any event, there are a number of 3PLs that can already credibly demonstrate they have "*track record*" across a number of factors. It therefore would not take "*more than two years*" for a 3PL to build "*track record*": they already have it. Indeed, [Redacted] even acknowledged that it would be "*pretty easy*" to operate a Grocer's warehouse if it wanted to[157] and [Redacted] stated that it is confident of "*getting into a position to bid for larger contracts in three to four years' time*"[158] – although [Redacted] estimated timeline is conservative given its existing experience in non-UK Grocery (and the timeline of its own entry in Italy, described below) and is likely to be shorter than three to four years, particularly if the Merged Entity were to increase prices or degrade its offering.

(120) *Second*, and in any event, the timeline that Grocers have suggested it would take for a new 3PL to become a credible alternative is overstated. For example, [Redacted] indicated that it would "prefer" to see a new 3PL performing well in a smaller contract "over five to eight years, or longer".[159] However, GXO understands that [Redacted] has not run a dedicated Grocery warehousing tender since [Redacted] and is therefore less likely to be familiar with the capabilities and experience of other 3PLs. Further, when GXO entered dedicated Grocery warehousing, [Redacted] built a relationship with GXO in a significantly shorter period of time. Shortly after [Redacted].[160]

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154 Motor Transport, "Global supply chain giant ID Logistics Group ramps up drive into UK with new UK MD and Northampton site" (11 September 2024), available here.
155 IR, paragraphs 6.35–6.37.
156 As discussed below at paragraphs (127)(127) to(131), the Parties consider that the standard set by the IR for when entry is "sufficient" is overly restrictive.
157 IR, paragraph 6.13.
158 IR, paragraph 6.24.
159 IR, paragraph 6.34.
160 [Redacted].

(121) Examples of entry in other comparable countries also evidence that entry is significantly quicker than the IR anticipates. For example:

(a) **ID Logistics** opened its first warehouse in Italy in June 2022 serving an ecommerce customer.[161] The warehouse also managed the ecommerce operations for grocer Metro Italia.[162] By the end of 2023 (less than two years later), ID Logistics had been chosen to manage a 42,000 sq. m. grocery warehouse for Carrefour.[163]

(b) GXO entered the [Redacted] grocery segment in [Redacted], overseeing [Redacted] grocery warehouses.[164] By [Redacted], GXO was operating [Redacted] for [Redacted] with an estimated annual value of €[Redacted]m and by [Redacted] was operating [Redacted] for [Redacted] in [Redacted] with an estimated annual value of €[Redacted]m.

(122) *Third*, low switching barriers[165] facilitate the ability for Grocers to "*test*" new 3PLs for shorter periods, including through shorter contract terms, review clauses and expansive termination or penalty provisions relating to underperformance. In particular and as recognised by [Redacted],[166] Grocers will be able to "*test*" new 3PLs by initially awarding a small proportion of their operations (e.g. a single warehouse) to them, rather than taking the risk of switching all/a substantial proportion of their operations to a new 3PL in one move.

(123) *Fourth*, the IR does not account for how incentives change in response to the Merged Entity increasing prices post-Merger. In particular, the feedback provided by Grocers on their readiness to award contracts to new 3PLs appears to have been provided on the assumption that current conditions of competition prevail,[167] and did not take into account that both customers (who will want to mitigate a price rise or degradation of services) and 3PLs (who will sense an enhanced opportunity to enter and expand) will be incentivised to accelerate entry should the Merged Entity raise prices or degrade services post-Merger.

(124) Indeed, the IR acknowledges that there are a significant number of large contracts due to come up for tender in the coming years ([Redacted]) which 3PLs will want to exploit if margins are attractive.[168] GXO understands that several of the Grocers that have shown a willingness to award contracts (or parts thereof) to new 3PLs, or that are already working with other 3PLs, have significant (>£20m) tenders or contract renewals between 2025–2028. These include [Redacted]. In addition to these higher-value tenders, a number of Grocers will also be running lower value tenders between 2025–2028.

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161 ID Logistics, "*ID Logistics: nuova piattaforma logistica per l'e-commerce. A Gian Luca Fossati le responsabilita di VP Commercial and R&D per l'Italia*" (5 July 2022), available here.
162 Supply Chain Italy, "*Nel Casei Gerola Logistics Park trova casa il nuovo marketplace di Metro Italia*" (14 July 2022), available here.
163 Tech4Trade, "*ID Logistics: nel quarto trimestre 2023 ricavi a +14,5%*" (24 January 2024), available here.
164 Prior to this, GXO had [Redacted], operating [Redacted] in [Redacted] which supplied [Redacted].
165 The IR does not contest the Parties' submissions that switching barriers are low. See Post-ISM Paper, Section 3.
166 IR, paragraph 6.34.
167 See, for example, the fact that [Redacted] commented that inexperienced suppliers would require significant support (and extra costs) early on, indicates that interview questions were limited to current conditions of competition. IR, paragraph 6.34. Otherwise, [Redacted] response would have reflected that the start-up costs need to weighed against a potential price increase by the Merged Entity.
168 IR, paragraph 6.30.

(125) *Finally*, even if a 3PL were only able to win *part* of a tender (and therefore enter on a "*small scale initially*"),[169] this would have a constraining effect on the Parties who would see challenger 3PLs chipping away at their contract wins. Given that: (i) there are Grocers who have indicated they would be willing to pursue such an approach (e.g. [Redacted] suggested it could give a smaller 3PL a smaller site or a chamber within an existing site);[170] and (ii) GXO estimates that [Redacted] its upcoming contract renewals (in 2025-2028) could be split into smaller contracts,[171] this is a realistic possibility and would reduce even the hypothetical short-term gain from raising prices or reducing service levels. In any event, the size of contract win by another 3PL is a question of sufficiency rather than timeliness, as discussed below.

c) Entry will be sufficient

(126) The IR correctly states, in line with the MAGs, that entry or expansion is sufficient if it "*prevents an SLC from arising as a result of the merger*".[172] The IR then notes for this to be the case, it would expect the 3PL to be "*able to regularly participate in procurement exercises […] and actually win some […] with some regularity*". The IR claims for this to be the case, it would expect it would be necessary for the 3PL to (i) establish relationships with the major Grocery customers; (ii) hire relevant staff with experience; and (iii) build a sufficient level of experience and track record in the UK. In doing so, the IR sets an inappropriately high standard for "sufficiency" that even Wincanton does not meet.

(127) *First*, not even Wincanton – which the IR identifies as a strong competitor to GXO in the Grocery segment – currently meets the IR's standard for "*sufficiency*", demonstrating that the standard set in the IR is inappropriately high.

(128) In fact, of the [0-10] dedicated Grocery warehouses serviced by Wincanton, [Redacted] [0-10] generate more than £20m in annual revenue (and in [Redacted] below £25m).[173]

(129) In addition, closer analysis of the [0-10] [Redacted][174] contracts [Redacted] reveals that neither is an example of Wincanton winning a dedicated grocery warehousing tender:

(a) [Redacted]. Wincanton won a [Redacted] contract with [Redacted], but did not win [Redacted] warehousing component of this tender, which was instead won by [Redacted]. Wincanton only [Redacted].

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169 IR, paragraph 6.35.

170 IR, paragraph 6.34.

171 GXO has reviewed the contracts coming up for renewal in 2025-2028 and has found that [Redacted] could easily be split, either because they are for warehouse and transport services, or because they relate to multiple warehouses and could be split by warehouse. The [Redacted] of tenders identified by GXO that cannot be split easily relate to individual dedicated warehouses.

172 CMA, Merger Assessment Guidelines, paragraph 8.37.

173 [Redacted]. Five of these opportunities generated revenue of less than £15m per year. [Redacted]. While some of these warehouses were awarded in a single tender, Grocers could have easily split the tenders by warehouse. E.g. Wincanton retained the [Redacted] sites as part of [Redacted] tender. That GXO and DHL were awarded [Redacted] as part of this tender demonstrates that the tender could have easily been split by warehouse.

174 In any event, see paragraph (240)(240) below, where the Parties set out that the tender values relied upon in the IR are not meaningful proxies to assess whether a 3PL is capable of competing for dedicated warehousing contracts.

(b) [Redacted]. Similar to the IR's treatment of [Redacted], the [Redacted] contract ought to be excluded from the CMA's assessment.

(130) Based on tender data alone, [Redacted].

(131) Furthermore, even with respect to the standard of "*regularly participating*" in procurement exercises, Wincanton has missed out on significant dedicated Grocery warehousing opportunities. For example, in [Redacted], Wincanton bid for but was not selected to proceed to the final round of a £[Redacted]m per annum dedicated warehousing tender for [Redacted].

(132) If "*sufficient*" entry is only required to be comparable to the constraint eliminated by the Merger,[175] the standard set by the IR is overly restrictive, as it appears to require the new entrant to be more successful in procurement exercises than the constraint potentially being removed by Wincanton.

(133) Second, and in any event, if the purpose of this standard is *"such that incumbent 3PLs would perceive a material risk of losing business to a new 3PL (and factor this into their pricing and other terms)"*, the standard set by the IR is unnecessary.[176]

(134) The alleged entry barrier of "*experience and track record*" is vulnerable, as it takes only one successful contract to shatter the barrier. Allowing a new 3PL to win an opportunity from the Merged Entity could be expected to lead to the new 3PL capturing additional business from the Merged Entity, either from the same customer (e.g. for new sites or contract renewals, whether grocery-related or not) or from other Grocers. Any hypothetical short-term financial gain would be quickly lost in the longer term to advancement by another 3PL. Consequently, every tender becomes "*high stakes*" for the Parties. This is demonstrated by the Modelling Analysis set out in Section F.II above.

(135) In addition, as set out above at Section F.II.3.b) above, the Parties must determine their bid strategy for Grocery warehousing opportunities on the basis of imperfect information, where the downsides for the Parties are particularly high given the "*high stakes*" situation in every tender, meaning that the Parties will likely err on the side of caution by potentially overstating the threat of entry in their pricing decisions. There is already a lack of clarity in the IR's reasoning as to the extent to which "*track record*" serves as a barrier to entry – or even what constitutes "*track record*". This lack of clarity is compounded if Grocers consider adopting mitigation strategies (e.g. sponsoring entry or modularising a larger contract) in response to the Merged Entity raising its prices, given 3PLs will not be able to predict who "*the most credible competitors*"[177] will be.

(136) In any event, and as explained at paragraph (125) above, it would not matter if the threat was only to a small part of a tender. It would only take another 3PL to win a fraction of an overall tender for the Parties to recognise that any short-term price increase would not be profitable in the longer term (if it even is in the short term, if the result is winning only a partial contract win at the higher price).

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175 CMA, Merger Assessment Guidelines, paragraph 8.39.
176 IR, paragraph 6.39.
177 IR, paragraph 6.36.

(137) *Thirdly*, as demonstrated by **Section G.I.1** above, if "*to get to this point*" a 3PL must have relationships with major Grocery customers, have relevant and experienced staff, and have established track record, a number of 3PLs are already at *this point.* Indeed, at least one ([Redacted]) recognises itself that it would be "*pretty easy*" to operate a Grocer's warehouse if it wanted to.

(138) Therefore, on a more appropriate standard of "*sufficiency*" – even if reflecting Wincanton's true position in the Grocery Segment – there are a number of 3PLs that would be able to enter or expand to be a sufficient to prevent an SLC (and, as evidenced above, would be likely to do so on a timely basis).

II. Self-supply will impose a significant constraint on the Merged Entity for all contracts

(139) The IR provisionally finds that while self-supply poses a competitive constraint on the Merged Entity for "*some customers and tenders*", there are "*other circumstances*" in which self-supply is not a close substitute.[178]

(140) However, a full and proper consideration of the evidence in the case demonstrates that the weight of evidence does not support these provisional findings. Instead, a significant body of evidence confirms that insourcing is a particularly strong – if not the strongest – source of competitive constraint for all dedicated Grocery warehouse contracts.

(141) The sections below provide new evidence demonstrating that although some Grocers identified downsides to self-supply, it is a close substitute for most Grocers most of the time, and all Grocers benefit from the implicit threat of self-supply given the Merged Entity's imperfect information regarding each Grocer's willingness to switch:

(a) *First*, the majority of Grocer feedback on self-supply was positive and confirms that it is a close substitute for outsourcing. The concerns raised by five Grocers are narrower than they appear and, in some instances, appear to have been misconstrued (**Section 1**).

(b) *Second*, the limited negative feedback about self-supply from five Grocers with concerns about the Merger relate to only a few warehouses ([10-20]). All evidence in the case confirms self-supply is a competitive constraint for most Grocers and tenders (**Section 2**).

(c) *Third*, Grocers have the clear ability to self-supply "*mature*" sites. This is demonstrated by: (i) the fact Grocers self-supply large parts of their network today; (ii) benchmarking data confirming self-supplied site performance matches that of outsourced sites; (iii) Grocers' feedback confirming their ability to self-supply; (iv) the absence of any material barriers to switching; and (v) the range of examples of Grocers successfully re-insourcing (**Section 3**).

(d) *Fourth*, Grocers' ability to self-supply extends to new sites and major change, as evidenced by: (i) Grocers' track record of handling new site establishment and change programs inhouse; and (ii) Grocers' use of consultants and staff hires to obtain relevant expertise (**Section 4**).

(e) *Fifth*, Grocers' ability to switch is supported by their ability to efficiently replicate the key benefits of outsourcing internally. This is supported by evidence confirming that Grocers can and do obtain innovation and best practice insights via comparable channels (**Section 5**).

(f) *Sixth*, Grocers would have the incentive to self-supply if the Merged Entity raised prices or reduced service levels, as the costs and benefits of self-supply versus outsourcing are generally finely balanced and switching costs are low. This is demonstrated by: (i) the fact that Grocers self-supply most

[178] IR, paragraph 5.75.

warehouses today; (ii) economic modelling confirming that Grocers would be incentivised to re-insource in response to any material increase in the cost of outsourcing – even when accounting for the largely immaterial qualitative benefits of outsourcing not factored into the model; (iii) benchmarking data confirming no cost efficiency differential; (iv) Grocers' feedback confirming they would switch if the Merged Entity degraded its offering; and (v) internal documents confirming the constraint of self-supply on 3PLs (**Section 65.c)**).

1. Grocer feedback on self-supply is generally positive: negative concerns relate to a few Grocers and only to a handful of sites

a) The majority of Grocer feedback on self-supply is positive: self-supply is a close substitute to outsourcing

(142) Most Grocers (five of ten) provided unequivocally positive feedback on self-supply and confirmed that insourcing is a close substitute to outsourcing for all contracts and tenders, or were not asked for feedback but already fully insource their warehousing:

(a) [Redacted][179] has no concerns with self-supply. Since [Redacted], [Redacted] has typically operated its warehousing inhouse [Redacted];[180]

(b) [Redacted][181] has no concerns with self-supply. [Redacted] considers self-supply a "realistic option" and confirmed it "always has the option of shifting its logistics operations inhouse". This Grocer is used to opening and running new sites inhouse efficiently;

(c) [Redacted][182] has no concerns with self-supply, as it is capable of insourcing its logistics and has significant internal expertise and knowledge of logistics and owns all its assets. This is the case even though it fully outsources today; and

(d) [Redacted] did not express any concerns with self-supply. Although the CMA did not speak to these Grocers, we can infer from the fact that they each [Redacted] self-supply their warehouses that they consider this to be a superior solution over outsourcing.

(143) The real-world commercial behaviour of Grocers in deciding whether to self-supply or outsource – where decisions have real costs – is more credible than uncorroborated claims made on calls with the CMA. The fact that a third of Grocers ([Redacted]) insource all of their dedicated warehousing is strong evidence that:[183]

(a) Grocers can self-supply any dedicated warehouse site efficiently;

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179 IR, paragraphs 5.44(a) and 5.59(b).

180 [Redacted] has always found it feasible to self-supply new sites in practice: the Parties are not aware of any examples of it outsourcing new sites in the past [Redacted].

181 IR, paragraphs 5.44(a) and 5.60(a); Appendix C, paragraph C.8, footnote 27.

182 IR, paragraphs 5.44(a) and 5.59(a).

183 The CMA dismisses some examples of re-insourcing on the basis that the Grocer's switch reflected a "*broader strategic decision*". As set out in Section G.II.6.a) below, all decisions to choose between self-supply or outsourcing are strategic decisions for Grocers given the importance of their logistics operations.

(b) the downsides of self-supply that other Grocers identify are largely '*hassle factors*' rather than any fundamental differences between each option; and

(c) the benefits of outsourcing can be replicated inhouse or obtained from alternative sources, and to the extent they cannot be, the trade-off with 3PL management fees often comes out in favour of self-supply.

b) Negative Grocer feedback about self-supply is narrow or inconsistent with their actions.

(144) In the Grocery segment, the IR provisionally concludes that whilst self-supply is a close substitute to outsourcing for some contracts,[184] "*this is not the case for a significant number of customers and/or tenders*".[185] However, the only evidence cited to support the IR's provisional finding is feedback from five of the UK's ten Grocers on calls with the CMA (one of whom did not have any concerns with the Merger overall). Their claims are not corroborated by any significant other source of evidence.[186]

(145) Although feedback from five of Grocers who raised concerns about the Transaction confirms that some of them would prefer not to self-supply the [10-20] warehouses that they outsource today in at least some situations, it falls short of demonstrating that self-supply is not a close substitute for those warehouses, let alone proving that self-supply is not a close substitute for "*a significant number of customers and/or tenders*".[187]

(146) When properly considered, the five Grocers' who gave any negative feedback on self-supply has either been misconstrued ([Redacted]) or is narrower than the IR infers ([Redacted]). In summary:

(a) feedback from [Redacted] on self-supply should be disregarded, as this Grocer was almost certainly considering whether it could re-insource its [Redacted] warehouses. [Redacted] feedback that a switch to self-supply would be a "*very big cultural shift*"[188] requiring it to hire "*at least 100 additional staff*"[189] can only logically be understood if it was referring to its non-Grocery warehouses, as it already self-supplies all but [Redacted] of its [Redacted] dedicated Grocery warehouses via [Redacted]. By contrast, most [Redacted] of its [Redacted] warehouses are currently outsourced;

(b) [Redacted][190] confirmed that it would be willing and able to self-supply in the face of "*clear and compelling reason*" (such as a material increase in price post-Merger).[191] [Redacted] feedback on self-supply should be treated with some caution, as it is apparent that it was considering an unrealistic

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184 IR, paragraph 5.72.
185 IR, Summary, paragraph 20.
186 The only corroborating evidence appears to be an [Redacted] internal document confirming that a benefit of outsourcing is day to day operational risk, as well as legal and liability risk. IR, paragraph 5.58(c), footnote 162 (Third party internal document. [Redacted]). 3PLs fully insure against these risks, and pass on the cost of that insurance back to the customer under open book contractual arrangements. This is not a genuine advantage of using a 3PL.
187 IR, Summary, paragraph 20.
188 IR, paragraph 5.62(c).
189 IR, paragraph 5.61(a).
190 IR, paragraph 5.59(c).
191 IR, paragraph 5.62(b).

scenario involving re-insourcing "*all*"[192] of its warehouses immediately.[193] As with [Redacted], it is also unclear if it was considering only its dedicated Grocery warehouses, or was referring to its other warehouses which it outsources more extensively;

(c) [Redacted] did not express any concerns about the impact of the Merger on competition.[194] This is consistent with the fact that it is willing to use a new 3PL ([Redacted]),[195] and its feedback on self-supply was overwhelmingly positive. The IR seizes on its comment that it would prefer to not self-supply something undergoing "*radical change*" or "*large projects*".[196] However, this must be considered in the context of its other clear evidence confirming that it is "*fully capable of self-supply, especially for mature operations*",[197] "*always compares 3PL tender responses against its inhouse solution as if it was a bid in its own right*",[198] "*would consider self-supply to be more likely (or attractive) if the value created by 3PLs diminishes, or if 3PLs started increasing management fees*",[199] and "*if it became necessary to add a competitive edge, the customer would consider self-supplying outsourced sites*".[200] Indeed, [Redacted];

(d) [Redacted] confirmed that it makes its insourcing decisions on a case-by-case basis.[201] Whilst its feedback referencing various features of outsourcing is cited in the IR, it did not indicate it would be unwilling or unable to re-insource to counteract any increase in prices or degradation in the quality of outsourcing options post-Merger; and

(e) [Redacted] feedback confirmed that it is able to self-supply and would switch if given an incentive to do so. Although it said it would not be cost effective to self-supply its fulfilment centre (presumably at current prices for 3PL services), it could switch to self-supply and would consider doing so if it saw a significant negative effect post-Merger.[202] Its feedback confirms that the Merged Entity could – at most – raise prices by an insignificant amount before it would consider switching. Furthermore, [Redacted] negative feedback appears to relate to self-supply of [Redacted]. [Redacted] negative feedback therefore appears to be irrelevant to the CMA's assessment of self-supply for Grocery dedicated warehouses.

(147) The IR's conclusions on the competitive constraint of insourcing in Grocery relies exclusively on assertions made by just the above five Grocers on calls with the CMA. The IR does not cite any written responses to questionnaires or documentary evidence to substantiate Grocers' claims or views (except a single Grocer's internal

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192 IR, paragraph 5.62(b).
193 IR, paragraph 5.59(c): "*…self-supply is not a realistic option for currently outsourced dedicated warehouses for the customer at this time*." (emphasis added).
194 IR, paragraph 5.44(a).
195 IR, paragraphs 6.27 and 6.35.
196 IR, paragraph 5.58(b).
197 IR, paragraph 5.60(b).
198 IR, paragraph 5.60(b).
199 IR, paragraph 5.62(a).
200 IR, paragraph 5.62(a).
201 IR, paragraph 5.60(d).
202 IR, paragraph 5.60(c).

document confirming an unimportant point)[203] and relies solely on call notes.[204] This is a weak evidential basis on which to prohibit a deal or demand a remedy at Phase 2.

(148) The CMA must assess the veracity of Grocers' unsubstantiated claims and properly evaluate whether they are plausible in light of other customer feedback (see paragraphs (143) to (146)) and other evidence available to the CMA (described below).

(149) Each Grocer's assertions cannot simply be accepted at face value to avoid undertaking this evaluative exercise. To do so would be to assume that the divergent feedback reflects the unique circumstances of each Grocer. However, there is no evidence indicating that this is the case: a Grocer with particularly strong inhouse capabilities raised the most concerns ([Redacted]) while a Grocer with no existing inhouse operations ([Redacted]) raised no concerns at all. In assessing any inconsistencies between Grocer's third-party feedback and Grocer's actual market conduct, the CMA should give more evidentiary weight to what Grocers do (rather than what they say).

2. Grocers' concerns regarding self-supply are only relevant to a small number of warehouses

(150) Self-supply is a competitive constraint for a significant number of Grocers and tenders, as negative feedback from Grocers on self-supply related to only a handful of sites. The Grocers who raised concerns about the Merger and their ability to efficiently self-supply ([Redacted]) only outsource [10-20] dedicated Grocery warehouses today. These together account for just [10-20]% of dedicated Grocery warehouses.

(151) The IR provisionally finds[205] – on the basis of a single comment by [Redacted] expressing a preference[206] – that Grocers are less capable of insourcing new sites or major change projects. This one piece of feedback is then referred to elsewhere in the IR as "*setting up a new warehouse*", "*when a facility is first set up*", "*change programmes*", "*radical change*", "*a wider change in their logistics arrangements*", and "*restructures of logistics arrangements*".[207] **Section 3** below outlines evidence demonstrating that Grocers are in fact capable of self-supplying these sites and projects.

(152) New sites and major change projects are, in any event, relatively rare. Warehouses tend to have a working life of around 20-30 years (with the possibility of extension with refurbishment and further investment), whereas outsourcing contracts tend to

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203 IR, paragraph 5.58(c) and footnote 162 (Third party internal document. [Redacted]).

204 The document cited is an [Redacted] stating that one of the benefits of outsourcing is day-to-day operational risk, as well as legal and liability risk. The author of this document appears not to know that customers pay the full cost of insurance that 3PLs procure for these risks via the open book contracting model that dominates in the Grocery segment.

205 IR, paragraphs 5.60 and 5.71.

206 IR, paragraph 5.60(b). The IR also cites feedback from three non-Grocery retailers who indicated 3PLs play a valuable role managing change management. However, the position of Grocers fundamentally differs from non-Grocery retailers and should be considered separately. Grocers' logistics operations are much more extensive than non-Grocers, as they sell very large volumes of comparatively low value perishable goods. Grocers have an average of [10-20] dedicated warehouses each across the UK, which usually serve the same function for different parts of the country. In comparison, non-Grocer retailers cited have on average of just [0-10] warehouses.

207 IR, paragraphs 5.58(b) and 5.72; Appendix C, paragraph C.33.

have a term of just three to five years.[208] New sites and major change projects can therefore only be expected to constitute [10-25]% of all opportunities.

(153) This is consistent with an analysis of new sites and major change projects in the past five years. The top ten Grocers have [Redacted] dedicated sites in the UK. The Parties are aware of just [0-10] sites ([0-10]%) that have undergone "*significant change*" within the past five years. A further [0-10] of these [Redacted] sites ([0-10]%) have started operations within the past five years – [0-10] are self-supplied and [0-10] are outsourced.[209]

(154) This is also consistent with upcoming opportunities data. New sites and major change projects are overrepresented in opportunities pipeline data, as they require longer lead times than mature site renewals (and therefore appear in pipeline data earlier) and have a higher chance of being cancelled. Nonetheless, new sites and major change projects only comprise less than [30-40]%[210] of upcoming opportunities within the next two years and, in the case of [Redacted], it is considering self-supply as an option for its planned project for a new DC.[211]

(155) The limited scope of the concerns raised by Grocers regarding self-supply outlined above are consistent with other evidence set out in **Sections 3–6** below demonstrating that they have both: (i) the ability to self-supply (including new sites and change projects); and (ii) the incentive to do so if the Merged Entity were to raise prices or reduce quality.

3. Grocers have the ability to self-supply

(156) The clear body of evidence showing that Grocers have the ability to self-supply include: (i) the prevalence of insourcing today; (ii) Grocer feedback in the market investigation confirming that they can self-supply; (iii) the real-world examples of Grocers re-insourcing; and (iv) the lack of barriers to switching from outsourcing to self-supply.

a) Grocers insource many of their dedicated warehouses today

(157) 9 of the ten Grocers successfully self-supply today – it is the dominant choice, which Grocers use for [70-80]% of dedicated Grocery warehouses in the UK.[212] Decisions in the market therefore indicate that 9 out of ten Grocers have assessed that self-supply is not just a viable substitute to outsourcing, but the superior solution most of the time (and the tenth Grocer is confident it can readily self-supply).[213] Conduct in the market – where decisions have real costs – is significantly more probative than uncorroborated contradictory assertions by a handful of Grocers.

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208 IR, paragraph 268.

209 See **Annex 003**.

210 See, 3PL Sponsorship Remedies Proposal, Annex RP.002, as submitted to the CMA on 5 March 2025 – this annex lists [10-20] opportunities identified by the Parties coming up for renewal or to market for tender from Grocers within the next two years. Of these [10-20], [0-10] [Redacted] related to new sites ([Redacted]), and [0-10] related to major change ([Redacted]). The Parties identified [0-10] major change opportunities within the next two years.

211 IR, footnote 267.

212 Each Grocer outsources the following proportion of their dedicated Grocery warehouses: [Redacted]. As discussed, [Redacted] insource all warehouses and [Redacted] is fully outsourced. See **Annex 003**.

213 IR, paragraph 5.59(a).

b) *Insourced sites perform as well as (if not better than) outsourced sites*

(158) The IR acknowledges that mature operations are as efficient when self-supplied as when they are outsourced, based on the evidence on inhouse efficiency from the Parties and third parties.[214] However, the IR claims that 3PLs add more value and there are differences in inhouse efficiency for new warehouses when a facility is first set up and/or when implementing changes to logistics arrangements.[215] This is contradicted by key sources of evidence which demonstrate the efficiency of insourced and outsourced facilities is comparable, including new sites and change projects.

(159) *First*, the Parties submitted a wealth of benchmarking data in its response to RFI 4[216] which clearly demonstrated that many Grocers compared outsourced and insourced warehouses side by side, and insourced facilities perform similarly to outsourced facilities – if not slightly better. This benchmarking data has significant probative value.

(160) The IR repeats the Parties' statement in RFI 4 that some of the benchmarking documents shared with the CMA may suffer from a selection bias, as Grocers may have chosen benchmarks that emphasise the underperformance of warehouses run by the Parties.[217] The next sentence in RFI 4 which identified Annexes C and K appears to have been overlooked:[218]

> "*However, some information received by the Parties appears to have been shared in error by customers.[9] Even this material – which is free from any selection bias – provides no evidence that outsourced operations are systematically more cost efficient than insourced operations. […]*
>
> [9] *In particular, Annexes C and K may not have been intentionally shared with the Parties.*"

(161) *Second*, there is no evidence that Grocers are less efficient at operating new sites or implementing major change projects. As mentioned at paragraphs (26), (177) to (179), only a single Grocer gave feedback indicating that it would be unlikely to self-supply "*radical change*" or "*implementation of a large project*" ([Redacted]).[219] Nothing in [Redacted] feedback or that of any other Grocer indicates that they think they would be less efficient at operating new sites or implementing major changes. Every Grocer has either:

(a) actually developed a new site or change project inhouse recently as set out below at paragraphs (175) and (181); and/or

(b) confirmed that self-supply is as efficient or comparable to outsourced site performance. [Redacted] stated that from a performance perspective "*self-supplied and outsourced operations are broadly comparable*".[220] [Redacted] stated that its inhouse team "*are capable of running [its self-supplied]*

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[214] IR, Appendix C, paragraph C.32.
[215] IR, paragraph 5.60; Appendix C, paragraph C.33.
[216] Parties' response to CMA RFI 4 submitted 22 January 2025.
[217] IR, Appendix C, paragraph C.32(a).
[218] Annex C to Parties' response to CMA RFI 4 submitted 22 January 2025 is a [Redacted] score card shared with Wincanton in [Redacted], which indicates that [Redacted]. Annex K to Parties' response to CMA RFI 4 submitted 22 January 2025 is a [Redacted] weekly update shared with Wincanton in [Redacted] which shows that [Redacted].
[219] IR, paragraph 5.58(b); Appendix C, paragraph C.32(f).
[220] IR, Appendix C, paragraph C.32(b).

operations as efficiently as a third party".[221] Therefore, there is no basis on which to maintain selection bias concerns.

(162) *Third*, the IR states that performance between insourced and outsourced sites may be comparable because customers may be adopting best practices from outsourced sites.[222] Grocers can replicate the key benefits of outsourcing – including innovation and best practice insights that drive cost efficiency – for the reasons set out in **Section 5** above. Further, Grocers could reduce the number of sites they outsource to just one or two and still obtain learnings from 3PLs.

(163) Finally, the IR does not indicate Grocers shared any performance benchmarking internal documents with the CMA. To the extent that it has not already done so, we encourage the CMA to identify prior instances of new warehouses or change implementation at both outsourced and self-supplied warehouses and seek benchmarking data from Grocers across the relevant time period to test for any discernible difference in performance when managed by a 3PL versus the Grocer.

c) Grocers feedback confirms their ability to self-supply

(164) All of the feedback from Grocers clearly evidence their ability to self-supply:

(a) [Redacted] confirmed that "*it could self-supply its fulfilment centre if it had to*";[223]

(b) [Redacted] stated that it is "*fully capable of self-supplying*";[224]

(c) [Redacted] confirmed that insourcing decisions are made on a "*case-by-case basis*"[225] which shows self-supply is a close alternative for each project;

(d) [Redacted] is [Redacted], and confirmed it is willing to self-supply if given a "*clear and compelling reason*" to do so;[226]

(e) [Redacted] confirmed it has typically operated its warehousing inhouse since [Redacted];[227]

(f) [Redacted] stated that "*it always has the option of shifting its logistics operations inhouse*" and "*self-supply is currently a realistic option*";[228]

(g) [Redacted] confirmed that "*it was capable of insourcing its logistics (in part due to owning all its assets) and indicated that it has significant internal expertise and knowledge of logistics*";[229] and

(h) [Redacted] were not contacted but demonstrate their ability to self-supply by [Redacted].

(165) [Redacted] is the [Redacted] Grocer who indicated it could not self-supply, even in the face of a 5% price rise, but its feedback was almost certainly about [Redacted]

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221 IR, Appendix C, paragraph C.32(c).
222 IR, Appendix C, paragraph C.33.
223 IR, paragraph 5.60(c).
224 IR, paragraph 5.58(b).
225 IR, paragraph 5.60(d).
226 IR, paragraphs 5.62(b) and 6.30; footnote 267.
227 IR, paragraph 5.59(b).
228 IR, paragraph 5.60(a).
229 IR, paragraph 5.59(a).

warehouses rather than the [Redacted] dedicated Grocery warehouses that it does not already self-supply.[230]

d) No material barriers to re-insourcing

(166) Barriers to insourcing dedicated Grocery warehouses are low due to favourable contract rights,[231] customer ownership and control of assets,[232] the ability to obtain staff via the TUPE regime,[233] long contractual lead times before a switch is required,[234] and Grocer's familiarity with operating sites inhouse.[235]

(167) Feedback from Grocers on barriers to switching also confirms that they are limited. Eight of ten Grocers did not mention any barriers to switching at all.

(a) [Redacted] said that the "*cost to switch to self-supply is fairly low*",[236] "*but the disruption would be significant since it is a six to twelve-month process*" to TUPE staff and hire senior management.[237] This is well within the usual three to five year outsourcing contract duration, giving Grocers plenty of time to insource or switch 3PLs should they choose to. Its comment on the length of time required to switch should also be considered in light of its overall positive feedback on its ability to self-supply, as summarised in paragraph (146)(c) above.

(b) [Redacted] stated that "*transitioning between insourcing and outsourcing (or vice versa) is inherently disruptive and carries potential risks*".[238] However, actual examples of [Redacted] re-insourcing sites suggests that it is willing and able to bear this disruption as a matter of course – see paragraph (175)(a) below for more detail.

(c) [Redacted] stated that switching to self-supply "*would be a very big cultural shift*", but, as set out in paragraph (146)(a) above, it was almost certainly referring to its [Redacted] warehouses. Its feedback should therefore be disregarded. In any event, this feedback reflects the '*hassle factor*' rather than a credible inability to self-supply.

i) *Grocers can readily obtain appropriate skills and know-how given that the majority of labour would be transferred through TUPE*

(168) As explained previously by the Parties, transferring staff via TUPE is straightforward.[239] A Grocer would only need to hire at most a small number of

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230 IR, paragraph 5.62(c). See **Annex 003**.

231 See, Parties response to the CMA's Second Request for Information dated 8 August 2024, paragraph 22.4. Key terms in Grocers' contracts facilitate switching, including: (i) relatively short contractual terms; (ii) obligations on the incumbent 3PL to support the transition between 3PLs; (iii) terms confirming asset ownership or the right to demand assets; and (iv) extensive termination rights. See Section 3(C) of Post Update Call Paper for further detail and examples of contractual rights held by Grocer customers.

232 See, for example, IR, paragraphs 4.26, 5.59(a) and 6.18, and footnote 247; P1DR, paragraphs 3.14 and 3.34. A detailed analysis of all key assets across GXO's top five Grocery customers and all four of Wincanton's Grocery customers is set out in paragraph 4.16 of the Post Update Call Paper.

233 Response to the CMA's Second Request for Information dated 8 August 2024, paragraph 22.4.

234 Grocery contracts have an average duration of three to five years. IR, footnote 268. Response to the CMA's Second Request for Information dated 8 August 2024, paragraph 22.4.

235 See Section G.II.3.a) above. Frontier Insourcing Paper (Updated) dated 14 January 2025, paragraph 29(b)(i). Post Update Call Paper, paragraph 2.11.

236 IR, paragraph 5.61(b).

237 IR, paragraph 5.61(b).

238 IR, paragraph 5.60(a).

239 Post Update Call Paper, paragraphs 3.23 and 3.26.

additional logistics personnel to run their logistics operations if they chose to re-insource their entire network. All Grocers already have inhouse logistics teams with the requisite expertise to supplement the skills of staff who would transfer via the TUPE process. Indeed, GXO's Grocery business unit [Redacted] FTEs subject to TUPE ([90-100]%) of all of GXO's [Redacted].

(169) Re-insourcing would not require those nine Grocers that currently self-supply sites to develop a new capability or function[240] – they would simply need to extend the number of warehouses covered by existing internal teams. The tenth Grocer, [Redacted], has stated to the CMA that it is "capable of insourcing its logistics […] and indicated that it has significant internal expertise and knowledge of logistics".[241]

e) Grocers have an established track record of switching back to self-supply

(170) The only critiques of the Parties' submissions that barriers to Grocers' switching to self-supply are low were:[242]

(a) the IR considered that prior examples of switching cited by the Parties "*appear to reflect strategic decisions*" rather than a "*like-for-like decision*"; and

(b) a competitor, [Redacted], could not think of any examples of re-insourcing.

(171) Neither is persuasive, as the possible reasons for switching do not detract from the fact that past examples demonstrate <u>ability</u> to switch, and the range of examples of Grocers re-insourcing as outlined below confirm that it is relatively common.

i) *<u>Examples of re-insourcing demonstrate ability regardless of the reason for the switch</u>*

(172) Although the IR dismisses past examples of switching that the Parties had put forward as reflecting "*strategic decisions*" rather than "*like-for-like*"[243] decisions on the basis that it does not "*directly address whether they have an incentive to self-supply*".[244] These examples do of course clearly demonstrate Grocers' <u>ability</u> to switch and should be given more probative weight than Grocers' feedback to the extent it is inconsistent (see paragraph (146), (217) to (218)).

ii) *<u>There are many examples of Grocers re-insourcing</u>*

(173) The Parties are aware of [0-10] instances of Grocers re-insourcing sites since 2018, as listed in Annex 004.6 to the Post-ISM Paper.[245] It is unclear how the IR identified only two examples.[246] The IR focusses on switching in the past three years,[247] but given an average contract length can be three to five years this is a particularly

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240 Except potentially [Redacted], which nonetheless has no concerns about its self-supply.
241 IR, paragraph 5.59(a).
242 IR, paragraph 5.63.
243 IR, paragraph 5.63.
244 IR, Appendix C, paragraph C.8.
245 See Post-ISM Paper, Annex 004.6, rows 21, 22, 30, 35, 36, 40, 41, 46 and 47.
246 IR, Appendix C, paragraph C.11.
247 IR, Appendix C, paragraph C.11.

narrow focus. Examples from before 2022 clearly demonstrate Grocers' ability to switch.

(174) As the CMA will appreciate, during the pandemic, the Grocers were fully focused on delivering customer service and throughput in 2020–2022 and had limited appetite for any network changes beyond what was strictly business-critical. The prevalence of recent re-insourcing evidence must be assessed within this broader macroeconomic context (for example, in June 2022, [Redacted] was in the process of developing [Redacted], with consultants, [Redacted], delivering the operational solution. [Redacted] shelved the project in 2022 due to [Redacted] after the pandemic but may look at this project again [Redacted]).

(175) Grocers have re-insourced the following dedicated Grocery warehouses:

(a) [Redacted] considered taking all of its Grocery food warehouses inhouse as part of a significant restructure of its network-wide logistics arrangements across its Grocery and non-Grocery businesses.[248] While it ultimately decided to outsource some operations and maintain a significant number of warehouses inhouse, [Redacted] serious consideration of insourcing *all* of its Grocery food warehouses is, in itself, notable.[249]

(b) In [Redacted] [Redacted] re-insourced its [Redacted] distribution centre. GXO estimates that the annual warehouse logistics spend for the warehouse was approximately £[Redacted]m. The site was operated by [Redacted]. As a result of insourcing, [Redacted] made an immediate saving on [Redacted]'s management fee and [Redacted] was able to improve site performance in line with KPIs in [Redacted]. Operation of the site switched from [Redacted] to [Redacted] within [Redacted] months from the date [Redacted] made the decision to re-insource it. The speed of transfer was typical, and aided by many of the characteristics of low barriers to switching outlined above:

(i) asset ownership: the site lease and all equipment leases were already held by [Redacted];

(ii) technology: the site used the same warehouse management system [Redacted] as for [Redacted] other self-supplied sites. This ensured quick integration with [Redacted] existing systems; and

(iii) labour: warehouse operatives were transferred under TUPE legislation from [Redacted] to [Redacted], whilst site management that were not subject to TUPE were quickly recruited by [Redacted].

(c) In [Redacted], [Redacted] re-insourced its [Redacted] site from [Redacted]. GXO estimates that the annual revenue of the contract was approximately £[Redacted]m. GXO understands that the site was insourced because [Redacted] believe they could run it at a lower cost and great level of efficiency. Put another way, it considered self-supply to be a superior substitute for outsourced warehouse management.

[248] [Redacted].
[249] See, for example, CMA Issues Meeting Presentation (8 October 2024), diagram on slide 18.

(d) In [Redacted], [Redacted] re-insourced its [Redacted] sites. [Redacted] elected to take its CLS operations estimated to cover £[Redacted]m p.a. of spend inhouse after one of its 3PLs, [Redacted]. [Redacted] believed it could operate these logistics requirements better than any replacement 3PL and had inhouse CLS expertise. [Redacted] closed the [Redacted] site and folded those operations into its existing network and took over the [Redacted] sites.[250]

(e) In [Redacted], [Redacted] re-insourced its [Redacted] site from [Redacted]. The IR dismisses this example on the basis that the contract was "just £[Redacted] million per year, [Redacted]", and it took over the site to [Redacted].[251] This misses the point: [Redacted] undertook a detailed assessment of the projected performance of the outsourced site and considered that it could self-supply the same services at roughly half the cost. It then not only re-insourced [Redacted] (£[Redacted]m p.a. spend was warehouse-only), it successfully established a new larger facility without the assistance of a 3PL to consolidate several of its existing sites (including [Redacted]).

(f) **In 2017, Tesco re-insourced its Snodland site from Wincanton** (£[Redacted]m approximate annual spend).[252] The Snodland site is a large distribution centre serving the South UK.

(g) **In 2017, Tesco re-insourced its Daventry warehouse from DHL.** (£[Redacted]m approximate annual spend).[253]

(h) In 2024, Booths (a regional grocer operating in the North of England with annual turnover of c.£300m) re-insourced its frozen foods supply chain and opened a new cold chain warehouse in late January 2024 in Preston. Previously it had outsourced its frozen warehousing to James Hall & Co. Booths now handles warehouse and pick elements from its Preston site.[254]

4. Grocers are capable of setting up new sites and implementing major change projects themselves

(176) The IR provisionally finds – on the basis of a *preference* expressed by a handful of Grocers ([Redacted]) – that self-supply is a weaker substitute when setting up a new warehouse or implementing a major or wider change in logistics arrangements.[255] Against this, the Parties present below a significant body of new evidence which shows that Grocers are more than capable of running new warehouses and change projects internally. This includes: (i) Grocers' extensive track record of insourcing new sites and change projects; (ii) the fact 3PLs play a relatively limited role on new sites and change projects; and (iii) Grocers' ability to obtain change management expertise through consultants and external hires.

250 Post-ISM Paper, Annex 004.6, row 36.
251 IR, Appendix C, paragraph C.11.
252 [Redacted].
253 *Ibid*.
254 The Grocer, "*Booths takes frozen supply chain back inhouse as part of logistics overhaul*" (13 December 2023), available here.
255 IR, paragraph 5.59(c), 5.60(b)(e) and 5.72; Appendix C, paragraph C.33.

a) The IR overstates the evidence on change projects

(177) The IR's concern about <u>change sites</u> is based on one comment by a single Grocer, [Redacted], who said it would be unlikely to insource something undergoing radical change or involving implementation of a large project.[256] No other Grocer indicated that expertise in introducing and implementing changes to existing arrangements was a benefit of outsourcing nor did any Grocer indicate that it does not have the ability to implement change projects inhouse.[257] Although not described in any further detail in the IR, [Redacted] appears to consider "*radical change*" or "*implementation of a large project*" to be high thresholds.

(178) [Redacted] feedback on self-supply was positive, as summarised in paragraph (164)(b) above. It "*always compares 3PL tender responses against its inhouse solutions as if it was a bid in its own right*", and "*would consider self-supply more likely or attractive if 3PLs started increasing management fees or the value they created diminishes*".[258]

(179) [Redacted] also has a strong track record of building new sites and running major change projects internally.

(a) in [Redacted], [Redacted] undertook a major change project across [Redacted]. The publicly stated [Redacted]. Notwithstanding the breadth of the project and the ambitious cost savings targets, it undertook the project internally. One potential outcome [Redacted] identified in documentation for the project was that it would insource all of its dedicated warehouses;[259] and

(b) the IR identifies another example of [Redacted] undertaking a major change internally. At paragraph C.11 of Appendix C, it points out that [Redacted] built a [Redacted], which it established using inhouse capabilities and continues to self-supply to this day.

(180) Its statements and track record both indicate that, notwithstanding its preference to outsource "*radical change*" or "*implementation of large projects*", it is in reality more than capable of handling these types of projects itself.

b) Other Grocers also have a clear track record of setting up new warehouses and running change projects internally

(181) Every Grocer either indicated it can self-supply greenfield sites or has recent real-world experience of insourcing new sites. In particular:

(a) [Redacted].[260] In 2018, [Redacted].[261] As far as the Parties are aware, [Redacted] developed and opened both warehouses without the assistance of any 3PLs. [Redacted] has opened other new sites in the past without any

256 IR, paragraph 5.58(b).
257 The only other customers that provided feedback on 3PL expertise in introducing and implementing change are non-Grocery retailers ([Redacted]). IR, paragraph 5.58(b), footnote 158.
258 IR, paragraph 5.62(a). The IR cites the views of three non-Grocery retailers, but these are of less relevance given how extensive Grocers' logistics networks and inhouse capabilities are in comparison.
259 [Redacted]; CMA Issues Meeting Presentation (8 October 2024), slide 18.
260 [Redacted].
261 [Redacted].

3PL involvement: [Redacted][262] [Redacted][263] [Redacted][264] and [Redacted].[265]

(b) [Redacted] is considering self-supply as one of four options for a new Grocery warehouse it is developing.[266] Although it told the CMA self-supply is "*not a very serious consideration*", the fact it has shortlisted self-supply as one of four options demonstrates that it believed it has the capability internally.[267] Importantly, [Redacted] has confirmed that it is considering self-supply for a [Redacted].[268] We understand that this [Redacted].

(c) [Redacted] confirmed that it is "fully capable of self-supplying".[269] This is corroborated by the market evidence which illustrates that [Redacted] has the ability to self-supply new sites themselves. In 2015, [Redacted].[270] [Redacted] developed and opened the [Redacted] RDC without the assistance of any 3PLs, which shows that this Grocer has the ability and incentive to set up new sites through self-supply.

(d) [Redacted] said that when it builds new distribution centres or acquires new space, they are always operated inhouse where feasible.[271] In practice, it has always proved feasible, and it does not outsource any facilities today. [Redacted] is planning on opening a new [Redacted].[272] The new [Redacted]. This follows [Redacted].[273] As far as the Parties are aware, [Redacted] designed and built the [Redacted] warehouse without the assistance of any 3PL.

(e) [Redacted] said it had a deliberate strategy of outsourcing new warehouses and building inhouse capability would be a "*significant distraction*".[274] However, in [Redacted] opened a new RDC at [Redacted] inhouse without any 3PL involvement to the best of GXO's knowledge.[275] Further, we understand that [Redacted] completed a significant refurbishment project [Redacted] in around [Redacted], and opened a distribution centre in [Redacted] in [Redacted][276] without any known involvement of 3PLs.

(f) [Redacted][277] [Redacted].[278] [Redacted].[279] [Redacted][280] [Redacted][281] [Redacted].[282]

262 [Redacted].
263 [Redacted] [Redacted].
264 [Redacted].
265 [Redacted].
266 IR, footnote 267.
267 IR, paragraph 5.60.
268 IR, paragraph 6.30 and footnote 267.
269 IR, paragraph 5.58(b).
270 [Redacted].
271 IR, paragraph 5.59(b).
272 [Redacted].
273 [Redacted].
274 IR, paragraph 5.59(c).
275 [Redacted].
276 [Redacted].
277 IR, paragraph 5.60(c).
278 [Redacted].
279 [Redacted].
280 [Redacted].
281 [Redacted].
282 [Redacted].

(g) [Redacted] is "*used to opening its own depots and running [them] efficiently*".[283] It will continue to self-supply the majority of its warehouse services as it has a very capable and qualified team of people that are capable of running the operations as efficiently as a third party. The Grocer has made [Redacted] aware of its inhouse expertise - its [Redacted].[284] In June 2022, [Redacted] has opened new warehouses inhouse in the past: [Redacted].[285]

(h) [Redacted].[286]

(i) [Redacted]. [Redacted] has recently opened the following four warehouses without the assistance of any 3PL: in [Redacted];[287] [Redacted];[288] [Redacted];[289] and [Redacted].[290]

(182) Moreover, the Parties understand that many Grocers self-supply their change projects. This can be inferred from the fact that Grocers such as [Redacted] run either all or most of their dedicated Grocer warehouses inhouse today, and do not hand their warehouses to 3PLs specifically to run major change projects for those sites. While the Parties are unable to share any information on specific examples of Grocers self-supplying change projects beyond the [Redacted] example cited above, this is because change projects do not tend to be publicised.

c) Grocers can and do obtain change management expertise from other sources

(183) As set out in **Section 5** below, Grocers also frequently rely on consultants and staff hires to provide them with change management expertise, in place of 3PLs.

5. Grocers have the ability to replicate the key benefits of outsourcing

(184) The IR exhaustively lists various benefits of outsourcing mentioned by third parties and provisionally finds that they cannot be fully replicated inhouse.[291] Other than summarising the uncorroborated claims made by customers on calls with the CMA, for the small group of Grocers who claim they could not self-supply, the IR does not assess: (i) how significant any claimed foregone benefit would be; or (ii) the extent to which they cannot be replicated inhouse. The CMA must assess the materiality of the purported harm it has provisionally identified, even if that analysis is difficult.

(185) There is good evidence to indicate that any upsides of outsourcing compared to self-supply are modest – especially when weighed against the cost of outsourcing (including management fee and gainshare payments). This is considered in more detail below. At a conceptual level, the fact that self-supply is the dominant model amongst Grocers – with similar operations being outsourced and insourced – confirms that many of the qualitative benefits of outsourcing mentioned by Grocers are being largely replicated efficiently inhouse. Alternatively, Grocers do not

[283] IR, Appendix C, footnote 27.
[284] See [Redacted].
[285] [Redacted].
[286] [Redacted].
[287] [Redacted].
[288] [Redacted].
[289] [Redacted].
[290] [Redacted].
[291] IR, paragraph 5.58.

consider them to be especially valuable compared to the 3PL management fee and other payments that can be saved by switching to self-supply. As the IR recognises, customers decide whether to insource or outsource by weighing the benefits of various qualitative features that cannot be fully replicated inhouse against the cost of outsourcing. The evidence indicates that (i) this decision is in most cases finely balanced; and (ii) to the extent that there are exceptions where Grocers would be more reluctant to insource, the Parties are unable to identify which these exceptional cases are with any confidence.

(186) The Parties outlined the key benefits of outsourcing in the Post-ISM Paper. Two benefits cited in the IR are broadly consistent with the specific set of value propositions the Parties, and other 3PLs offer, to justify management fees: "*Innovation and best practice*"[292] and "*Expertise in introducing and implementing change*".[293] However, Grocers insourcing sites can and do obtain the same level of benefits by obtaining the same capabilities through consultants, relying on third-party providers, or via the skills and experience of inhouse teams. Further analysis of these two key benefits, supported by new evidence, is provided below. In any event, the Parties note that the Frontier analysis of the incentives to insource in response to a hypothetical increase in the cost of using 3PLs (submitted alongside the Post-ISM Paper) examined and took account of both of these potential benefits.[294]

(187) The other claimed benefits are inaccurate or less important compared to the two key benefits listed above. Further analysis of these benefits is provided in **Section G.II.5.c)** below.

a) Innovation and best practice

(188) This benefit was identified by eight of 16 Retail customers (including three Grocers – [Redacted]). The purpose of obtaining innovation and best practice insights is to ensure that warehouses are run as efficiently as possible, primarily by identifying and implementing cost saving measures. As [Redacted] said, "*for open book contracts, the main difference of outsourcing (relative to insourcing) is the management fee, and the customer requires the 3PL to justify this fee, often asking the 3PL to self-fund its management fee via cost savings*".[295]

(189) Customers' capacity to identify and implement innovation in self-supplied warehouses with either no support from 3PLs or just a single outsourced site is demonstrated by: (i) their ability to replicate taking innovation from an outsourced site across their insourced sites; (ii) their extensive use of specialist logistics industry consultants; (iii) their reliance on third-party providers; and (iv) the ability to obtain relevant skills via TUPE and recruitment.

292 IR, paragraph 5.58(a).
293 IR, paragraph 5.58(b).
294 Frontier's assessment of the costs and benefits of insourcing identified the efficiency improvements that GXO was aspiring to achieve for each of is Grocery customers over the lifetime of its existing contracts with these customers (either through full cost underwrites or as part of gainshare arrangements). It then considered scenarios in which customers would not be able to achieve some or any of these savings if they were to insource.
295 IR, footnote 177.

i) *Grocers can adopt innovation and best practices from outsourced sites and share these benefits across their own insourced sites*

(190) The importance of 3PLs' innovation and best practice insights is smaller for Grocers compared to other customers, as Grocers operate such large networks of warehouses, they can share innovation and best practice learnings gained from the management of their own self-supplied sites internally amongst their network. In fact, [0-10] out of 10 Grocers each operate [Redacted] dedicated Grocery warehouses inhouse [Redacted] Wincanton operates for all Grocers in the UK.[296]

(191) In addition, as previously explained by the Parties,[297] Grocers can leverage innovation and best practice learnings from 3PLs by adopting changes at outsourced sites to their own insourced sites. A Grocer need only use a single outsourced site to leverage 3PL learnings. This is common industry practice and supported by the following evidence:

(a) [Redacted] confirmed that it adopts best practices from outsourced sites and successfully implements these in its insourced sites;[298] and

(b) [Redacted] has adopted best practice and innovation led by [Redacted] at its [Redacted] warehouse which is currently being rolled out across the [Redacted] network. [Redacted].

ii) *Leverage logistics consultants*

(192) Logistics industry consultants such as Visku, Hatmill, Bearing Point and Supply Chain Consultants are the primary means by which customers gain innovation and best practice insights in the logistics industry that they do not have inhouse. The only critique of the value external consultants provide in the IR is an assertion that their insights are theoretical whereas 3PLs' insights are practical, and they cannot arrange site visits.[299] This is incorrect, as consultants gain insights on the actual practical outcomes of the projects they consult on, including cost savings. Consultants specialise in successfully identifying and implementing innovative procedures and best practice – it is their raison d'être, and they can draw on a far greater range of practical experience than a single 3PL. Like a 3PL, they can and do demonstrate where they have successfully implemented procedures, share tangible outcomes, and provide a balanced view of benefits and changes.

(193) GXO's advisers have worked with [Redacted] to identify recent case studies where consultants have provided practical insights to Grocers:

(a) [Redacted].

(b) [Redacted].[300] [Redacted].[301]

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296 Wincanton operates [0-10] warehouses for Grocers. [Redacted] self-supply more than [0-10] warehouses each.
297 Frontier Insourcing Paper (Updated) dated 14 January 2025, paragraphs 41–42.
298 IR, paragraph 5.58(a)(ii).
299 IR, paragraph 5.58(a)(ii).
300 [Redacted] is unable to name the Grocer for confidentiality reasons.
301 IR, paragraph 5.58(a)(ii).

(194) Other illustrative examples of consultants playing a major role include:

(a) GXO is aware that [Redacted] is playing a lead role in ongoing planning for [Redacted]. [Redacted] responsibilities are wide ranging and include supporting the [Redacted] strategic project team, reporting to the [Redacted] engineering project team and specific support for operations, procurement, building and engineering, technology (including working with [Redacted]) and property. [Redacted] its role is limited in scope. GXO and [Redacted] internal [Redacted] team provide their views on [Redacted] proposed solution, but do not lead the analysis or design work.

(b) Visku is currently assisting [Redacted] with the development of a new DC in [Redacted].[302]

(195) External consultants also can and do arrange site visits. For example, consultants sometimes organise site visits with prospective 3PLs as part of a tender process they are running with a customer. For example, [Redacted].

iii) *Third-party providers are another source of best practice insights*

(196) The IR does not consider the scope for Grocers to leverage other sources of best practice insights, such as third-party specialists and solutions suppliers. By way of example:

(a) In [Redacted], [Redacted] built an entirely new warehouse management system to maintain stock levels [Redacted]. Working with [Redacted], [Redacted] developed a new system with a new server in [Redacted].[303]

(b) In [Redacted] teamed up with [Redacted], to digitally transform [Redacted], to improve its forecasting and replenishment capabilities.[304] [Redacted] implemented this innovation project all inhouse, without any 3PL involvement.

(c) In [Redacted], [Redacted] teamed up with [Redacted] to evolve its Grocery logistics network to drive greater efficiencies in the distribution of stock, fulfil online orders, manage resources and enable it to scale up and adapt to meet shifts in demand.[305]

iv) *Obtain staff with relevant skills via TUPE and hiring*

(197) The IR's provisional findings are consistent with the Parties' submissions on the extent of talent that transfers via the UK's TUPE regime.[306] As described in paragraph (168) above(168), [90-100]% of FTEs in GXO's Grocery business transfer between contract holders via TUPE, thereby ensuring the transfer of significant knowledge relating to the facility and to its operations.

302 P1DR, paragraph 4.45(b).
303 [Redacted].
304 [Redacted].
305 [Redacted].
306 In the IR's analysis of entry and expansion, it summarises the Parties' submissions on TUPE at paragraph 6.5(b), and provisionally concludes that there are no material barriers to entry other than experience and track record at paragraphs 6.16 and 6.19.

(198) As the Parties have previously submitted, non-TUPE staff have a limited role with respect to innovation and continuous improvement.[307] To the extent innovation and best practice insights from non-TUPE-able staff are lost when a customer switches to self-supply, the customer can use 3PL management fee savings to hire staff with expertise in introducing and implementing changes, knowledge of best practices, and experience with market-wide innovation. For example:[308]

(a) Kevin Bennett, who was previously a Business Unit Director at Wincanton for 25 years, is now Head of Logistics for Clothing and Home for Marks & Spencer.

(b) Mike Brooks, a former Project Manager for GXO, is now Head of Development for Marks & Spencer.

(c) Ian Howes, Sainsbury's Director of Logistics & Fulfilment Operations, began his career as an Account Director at DHL.

(d) Helen Wood, Head of Delivery at Sainsbury's, was the Lead of [Redacted]. Helen, who has significant experience in Project Management, joined Sainsbury's inhouse team from a Project Management Consultancy (MIGSO-PCUBED).

(e) Ian Gibb, Head of Logistics at Co-op, previously worked at DHL.

(f) Doug Kay, a former Retail Commercial Director at Wincanton, is Head of Grocery at Waitrose/JLP.

v) *Consistency of Grocers' feedback with observed market behaviour*

(199) The IR infers that innovation and best practice insights are such critical benefits of outsourcing that self-supply is an inadequate substitute. This is hard to reconcile with the fact that three Grocers – [Redacted] – self-supply their entire dedicated Grocery warehousing operations. There is no evidence to suggest their logistics operations are any less innovative or fall below best practice compared to other Grocers.

(200) Indeed, these Grocers have outperformed their peers. [Redacted].[309] [Redacted].[310] Finally, [Redacted][311] The success that each of these Grocers has achieved in the UK would not be possible without each having an innovative and efficient logistics network supporting their growth. Their decisions to insource do not appear to have had any discernible impact on their downstream competitiveness or offering to end consumers.

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307 See Section 2(B) of the Post-ISM Paper.

308 For further details of GXO examples of senior personnel who have recently moved inhouse (as well as senior staff who have moved from GXO to rival 3PLs), please refer to paragraph 2.18 of the Post-ISM Paper, and Annex 040 of the Merger Notice ('*Movement of operational and management staff between one 3PL and either another 3PL or an inhouse CLS team*'). The Parties are also aware of numerous other examples of senior staff who have moved between customers and 3PLs – for example, senior staff have also moved between Wincanton and B&Q, Asda, Waitrose and Morrisons, and between DHL and Co-op and Halfords. The Parties would be happy to provide further details of these movements if helpful.

309 [Redacted].

310 [Redacted].

311 [Redacted].

b) Expertise in introducing and implementing change

(201) This benefit was raised by only one Grocer – [Redacted].[312] For the reasons set out in **Section 4** above, Grocers regularly set up new sites and implement major change projects themselves. This demonstrates that they can and do obtain the required expertise from other sources.

(202) As set out in **Section 5(a)** above, industry consultants, third-party providers, and internal staff capabilities (including skills hired in) are the three alternative key sources of change management expertise that Grocers rely on.

c) Other benefits of outsourcing are not material

(203) The other benefits of outsourcing cited by Grocer feedback beyond the two primary benefits above are not material for the reasons set out below.

i) *Labour (in relation to union relationships and differences in costs of employment and contract terms)*

(204) The IR states that a benefit of outsourcing relating to labour was raised by four Grocers ([Redacted]).[313] Feedback from [Redacted] and [Redacted] about alleged differences in contract terms and costs of employment is legally incorrect. It is broadly accepted market practice that Grocers inherit the same staff, contracts, wages, benefits (including redundancy) and union relationships from the incumbent 3PL when they re-insource a warehouse from a 3PL under the TUPE.[314] It is unclear what benefit [Redacted] and [Redacted] believe outsourcing provides – the IR only states that these Grocers, "*mentioned labour issues, in particular, related to relationships with trade unions*" *([Redacted]) and* "*being part of a [Redacted]*" *([Redacted])*".[315] However, the Parties note that [Redacted] does not have wider concerns about the Merger and [Redacted] insources two sites ([Redacted]) so clearly has existing inhouse expertise on how to handle such labour issues and factors these into its assessment of whether to self-supply or outsource.

(205) Whilst some customers perceive outsourcing has labour advantages, this is incorrect. Labour issues at outsourced warehouses are typically handled by onsite HR team members with limited support from the 3PL's central management team.[316] These staff would TUPE across to the Grocer if it re-insourced a warehouse.

(206) For these reasons, the Parties do not believe that insourcing sites would create upward pressure on Grocers' employment costs. For completeness, as previously noted by the Parties,[317] a possible exception might be staff working in **RRUs** attached to warehouses. However, we do not consider these RRU-specific factors relevant to the CMA's merger investigation. RRU operations are a distinct segment

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312 IR, paragraph 5.58(b).
313 IR, paragraph 5.59(e)(ii).
314 See, for example, Post-ISM Paper, paragraph 3.24(d)(i); Merger Notice, paragraph 1.76(b).
315 IR, paragraph 5.58(e)(ii).
316 See, for example, case studies of central management involvement in HR issues at warehouse sites in Section 2(B) of the Post-ISM Paper.
317 See, Frontier Insourcing Paper (Updated) dated 14 January 2025, paragraph 46.

of activity (frequently tendered and managed separately from other warehousing operations – see paragraph (36)(b) above) [Redacted].[318]

ii) *"Funding options" / making costs "variable" / "free up capital"*

(207) A single non-Grocery retailer ([Redacted]) cited these factors as a benefit of outsourcing.[319] No Grocer mentioned any of these factors. In any event, these are not material benefits that the Parties offer outside their shared warehousing services.[320]

iii) *Potential use of the 3PLs network of contacts to "fill otherwise empty space"*

(208) A single Grocer ([Redacted])[321] mentioned this benefit, but this benefit is relatively rare and is limited in scope when it does arise.

iv) *Flexibility*

(209) A competitor, [Redacted], stated that 3PLs offer customers flexibility to grow or downsize.[322] This benefit relates primarily to shared facilities services which are designed to offer significant flexibility to customers. Outsourcing dedicated warehousing services do not offer customers material flexibility over self-supply, as the costs of downsizing (or growing) the workforce would be worn by the customer under either an open book model or self-supply. In addition, Grocers can and do directly procure staff from labour agencies (with whom they have longstanding relationships), so are equally well-placed to scale up or down an insourced site.[323]

v) *Risk allocation*

(210) Two Grocers raised the allocation of the risks associated with CLS operations to a third-party as a benefit of outsourcing ([Redacted] and [Redacted]).[324] However, the vast majority of Grocers' contracts are open book with direct cost pass-through. Therefore, any protection from risk which outsourcing provides Grocers is minimal and limited to any cost underwrite or malus payments that a 3PL may offer for KPIs. However, as the CMA itself observes in the IR, underwrites are relatively rare for Grocery contracts (and in any event, have been taken into consideration in Frontier's modelling work on incentives to self-supply).[325]

6. Grocers would have the incentive to self-supply in response to a degradation in 3PL prices/quality

(211) The IR provisionally finds that Grocers may not have a sufficient incentive to switch to self-supply in response to a degradation in price or quality of 3PL services post-Merger.[326] The only evidence supporting this position is that a minority of Grocers indicated there are some benefits to outsourcing or would to some extent be worse off if they re-insourced ([Redacted]) or prefer to outsource in certain situations ([Redacted]). The IR does not seek to assess how strong these Grocer's

318 GXO operates [Redacted] RRU facilities for retailers, but this is not an area in which Wincanton is active.
319 IR, paragraph 5.59(e)(iii).
320 For further information, see Section 2(C) of the Post-ISM Paper.
321 IR, paragraph 5.58(d)(ii).
322 IR, paragraph 5.58(d)(iii).
323 IR, paragraph 5.58(d)(iv).
324 IR, paragraph 5.58(c).
325 IR, Appendix C, footnote 47.
326 IR, Appendix C, paragraph C.8.

preferences for self-supply would be, or how much the Merged Entity could raise prices or reduce quality before they would have the incentive switch.

(212) The IR incorrectly dismisses the probative value of: (i) the prevalence of self-supply; (ii) insourcing incentives modelling; and (iii) benchmarking data. Even when taking into account the IR's criticism of these sources, they clearly demonstrate the strength of Grocers' incentives to shift a large proportion of their demand to self-supply to offset any increase in prices or reduction in the quality of the Merged Entity's offering.

(213) This evidence is corroborated by other sources: (i) Grocers' feedback confirms that they would switch to self-supply if necessary; and (ii) internal documents which confirm that GXO expressly considers the threat of self-supply when responding to tenders.

a) Grocers choose to self-supply most warehouses instead of outsourcing

(214) The IR accepts that there is a strong body of evidence corroborating the prevalence of self-supply in the Grocery segment.[327] However, the IR dismisses the relevance of this evidence on the basis that:

(a) some customers indicated that their "*current self-supply and outsourcing mix reflects a combination of strategic, legacy and financial considerations*";[328] and

(b) customers' current self-supplied operations demonstrate their ability to self-supply some of their operations but "*does not directly address whether they have an incentive to self-supply, and ultimately whether self-supply poses a competitive constraint sufficient to remove any degradation in price and/or quality as a result of the Merger*".[329]

(215) This is a narrow interpretation of what can be inferred from the fact that Grocers have chosen to self-supply [70-80]% of dedicated Grocery warehouses in the UK.[330] It is emblematic of a wider pattern in the IR of deference to what a minority of Grocers said on calls, rather than critically examining what Grocers in fact do in the market.

(216) Neither of the arguments raised to dismiss the clear inference from the high rate of self-supply in the Grocer segment are persuasive.

(217) _First_, every procurement choice by a Grocer, including the decision to outsource, self-supply or re-insource, is a strategic decision which could financially impact the profitability of the business going forward. It is unsurprising that procurement decisions made by highly sophisticated Grocers involve a combination of strategic and financial considerations, which are inherently linked.

(218) Importantly, in deciding whether to self-supply or outsource, Grocers trade off the perceived benefits of outsourcing with their ability to replicate these inhouse including, amongst others, pricing, quality, and control over the supply chain. In

327 IR, Appendix C, paragraph C.7.
328 IR, Appendix C, paragraph C.8.
329 IR, Appendix C, paragraph C.8.
330 See **Annex 002**.

other words, every dedicated warehouse currently insourced by a Grocer is clear evidence that a Grocer has evaluated the benefits of outsourcing and determined that either it could internally replicate these benefits through self-supply or that any such outsourcing benefits are marginal and offset by the savings in management fee. Grocers' decisions to self-supply are therefore always "*like-for-like*"[331] decisions which is corroborated by Grocer feedback:

(a) [Redacted], who mentioned that it insources for legacy and strategic reasons confirmed that "*self-supply is currently a realistic option*" and so "*uses it as leverage in negotiations with 3PLs*".[332] It is actively shaping its mix of warehouses to reflect its evaluation of the trade-off between self-supply and outsourcing as substitutes.

(b) Similarly, [Redacted] confirmed that the main difference of outsourcing (relative to insourcing) is the management fee, and the customer requires the 3PL to justify this fee, often asking the 3PL to self-fund its management fee via cost savings.[333]

(219) ***Second***, the IR's claim that the current mix of self-supply and outsourcing in the Grocery segment reflects "*legacy reasons*" strains credibility in circumstances where there has been a vibrant market for dedicated Grocery warehouse CLS in the UK for over 30 years. Only two ([Redacted]) out of ten Grocers claimed their current mix reflects legacy reasons.[334] Their feedback should be treated with scepticism for the reasons set out below:

(a) [Redacted] confirmed that its decision whether to self-supply or outsource is both a strategic and financial choice. The Grocer confirmed that legacy also plays a role since the customer is used to opening its own depots and running these efficiently.[335] This speaks to its capability to self-supply, but not its incentive to switch in response to a 3PL price increase or quality degradation. The fact that it relies on a mix of self-supply and outsourcing is consistent with it treating the two options as close substitutes.

(b) [Redacted] self-supplies [Redacted] dedicated Grocery warehouses today. Even if this is due to "*legacy reasons*"[336] (despite having stuck to its decision to not outsource for [Redacted] years), it accounts for only [Redacted]% of the dedicated Grocery warehouses in the UK.

(c) The evidence of the UK's eight other Grocers that operate [80-90]%[337] of UK dedicated warehouses is more persuasive ([Redacted]).

(220) ***Third***, the IR's position that no inference regarding incentive to self-supply can be made from the fact that Grocers decide to self-supply [70-80]% of dedicated Grocery warehouses today is illogical.[338] Grocers' actual market conduct demonstrates that they have had both the ability and incentive to self-supply [70-

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331 IR, paragraph 5.63; Appendix C, paragraph C.12.
332 IR, paragraph 5.60(a).
333 IR, paragraph 5.59 and footnote 177.
334 IR, Appendix C, paragraph C.8.
335 IR, Appendix C, paragraph C.8 and footnote 27.
336 IR, Appendix C, paragraph C.8 and footnote 27.
337 See **Annex 003**.
338 IR, Appendix C, paragraph C.8.

80]%[339] of their current facilities, and clearly supports the conclusion that the trade-off between self-supply and outsourcing is finely balanced across their entire portfolio of warehouses.

(221) The IR does not identify any distinction between the [30-40%] of facilities that are outsourced and the [70-80%] that are insourced that could indicate any material difference in Grocers' ability or incentive to self-supply these facilities (with one poorly evidenced exception relating to new facilities and major change, considered further at paragraphs (177) to (182)(179). Grocers generally outsource and self-supply facilities of the same type, contracting with 3PLs to operate RDCs covering some parts of the country, while keeping the operation of other RDCs in house. There is no evidence of any systematic or material differences in the warehouses that Grocers outsource and self-supply, which is consistent with the fact that the assets are owned by the Grocers,[340] the staff TUPE across between providers,[341] and the facilities are run under an open-book model.[342]

b) Insourcing incentives modelling confirms that Grocers would be incentivised to re-insource in response to any price, even when accounting for immaterial benefits of outsourcing not factored into the model

(222) The IR dismisses the probative value of the insourcing incentives modelling in Annex C on the basis that it "*does not robustly establish*" that customers have an incentive to switch in response to a degradation in the Merged Entity's offering.[343] It identifies two critiques:[344]

(a) the weight each customer attaches to these benefits is customer-specific;[345] and

(b) the model does not consider every possible benefit of self-supply that customers mentioned, and consequently on the model's analysis some Grocers would rationally have an incentive to self-supply even at current prices.[346]

(223) However, these critiques are unpersuasive, and do not detract from the overall probative value of the modelling.

(224) ***Each customer weights the benefits of outsourcing differently***. The Parties accept the IR's provisional finding that they cannot accurately guess each individual Grocer's preferences between self-supply and outsourcing, as it is customer-specific.[347] This is why the Merged Entity could not accurately price discriminate between customers based on whether they claim to believe self-supply is an equal of inferior option (see **Section F.II.3** above). However, GXO can model aggregated

339 See **Annex 003**.
340 IR, paragraph 4.5.
341 P1DR, paragraph 3.17.
342 IR, paragraph 5.58.
343 IR, paragraph 5.73.
344 It also challenges the Parties' SSNIP analysis that applied a 5% price increase to total spend rather than just the 3PL management fee, but solves these challenges by pivoting the model to consider what level of increase in the management fee would incentive Grocers to re-insource. See IR, Appendix C, paragraphs C.22 and C.28.
345 IR, Appendix C, paragraph C.15.
346 IR, Appendix C, paragraphs C.13–14 and C.16.
347 IR, Appendix C, paragraph C.15.

decision making across customers, which provides a useful insight into how the market overall is likely to react, even if each Grocer's reaction may differ.

(225) ***The model does not capture all benefits of insourcing**.* Although it does not model every benefit, it captures the most important benefits as outlined in the IR:

(a) Innovation and best practice[348] / expertise in introducing and implement change.[349] These key benefits of outsourcing are captured in the modelling of the efficiencies customers may forego if they self-supply. In the IR's update to GXO's modelling, this is reflected in the percentage of outsourced efficiency gains a customer would need to achieve to give it an incentive to switch to self-supply as set out in Table C.3 of the IR.

(b) Delegation and flexibility. The benefit of enabling the customer to delegate[350] and focus on its core business competencies[351] is captured in Frontier's model by accounting for the incremental cost of hiring additional senior staff ("top of pyramid") to accommodate the additional demands of expanding the inhouse logistics operations. Frontier's modelling assumed all customers opting to insource would invest in hiring additional senior management staff to ensure that existing employees would not be required to shift focus away from their core business responsibility (in addition to existing senior personnel Grocers may well already possess).[352] Existing management can delegate to this new staff and continue to focus on other parts of the business.

(c) Risk allocation.[353] In the context of the Grocery segment, the level of risk transfer to 3PLs is limited since – as the IR acknowledges – dedicated warehousing contracts tend to be open book,[354] with all costs incurred by the 3PL passed through to the customer. The only exception is cost underwriting agreements, but (i) the IR confirms that these are rare in practice;[355] and (ii) Frontier's assessment conservatively takes account of this by including cost underwrites in the analysis (and even considers a scenario in which the customers could *not* achieve any of these underwritten cost savings if they were to self-supply).[356]

(d) Labour issues, freeing up capital. Other benefits cited in the IR are immaterial or incorrect for the reasons outlined at Section G.II.5.c). They do not materially affect the fundamental trade-off between cost savings a 3PL can achieve and the 3PL management fee that Grocers consider, as described by [Redacted].[357]

(226) The outputs are robust and align with observed market conduct. The IR points out that the model indicates five customers whose choices were modelled do not – on

348 IR, paragraph 5.58(a).
349 IR, paragraph 5.58(b).
350 IR, paragraph 5.58(d)(i).
351 IR, paragraph 5.58(e)(i).
352 See, Frontier Insourcing Paper (Updated) dated 14 January 2025, paragraphs 6, 15(c), 25(a), 32(c), 35–36 and 40.
353 IR, paragraph 5.58(c).
354 IR, paragraph 5.58.
355 IR, Appendix C, footnote 137.
356 IR, Appendix C, footnote 137.
357 IR, footnote 177.

the model's outputs – have an incentive to self-supply even at current prices.[358] It suggests this indicates that "*there are other benefits [of self-supply] that are not (and potentially cannot be) captured in the model"*.[359] This may be the case with respect to the other immaterial benefits outlined above. However, it also reflects the fact that GXO does not know each individual Grocer's unique preferences, including the weight they place on each benefit of self-supply, and reinforces the critical conclusion: the trade-off between outsourcing and self-supply for dedicated Grocery warehousing tends to be finely balanced in all cases, and GXO acts accordingly.

(227) On the CMA's analysis of the model, all Grocers would be better off insourcing in the face of any increase in the Merged Entity's prices if they expected to be able to achieve more than [70-80]% of the efficiency benefits of an outsourced operation inhouse – and considerably less than this in the case of several Grocers.[360] However, benchmarking data indicates insourced sites are typically just as efficient as outsourced sites. Even if some benefits of outsourcing are not fully captured in the model, it therefore demonstrates that the benefits of self-supply versus outsourcing are nonetheless finely balanced.

(228) Building on these conclusions in the IR regarding self-supply (as well as the competitive threats posed by DHL and entry/expansion by other 3PLs), Frontier has developed an integrated analytical framework that consolidates the different elements of the IR's competitive assessment. The analysis shows that it would not be profitable for the Merged Entity to increase prices by any amount. See further in **Section F.II.1** above.

c) Benchmarking data confirms Grocers do not suffer from lower cost efficiency when they insource

(229) As explained above in **Section G.II.3.b)**(163), all benchmarking data confirms that Grocers achieve similar efficiency at insourced sites compared to outsourced sites, and the IR's critiques are not persuasive. There is no basis to believe that a cost differential between outsourced and insourced sites would disincentivise Grocers from switching to self-supply to offset an increase in the Merged Entity's prices or reduction in quality post-Merger.

d) Grocers' feedback confirms they would switch if the Merged Entity degraded its offering

(230) The IR accepts Grocer feedback confirming that they would have the incentive to switch to self-supply if the Merged Entity degraded its offering:

(a) [Redacted] confirmed that "*it is open to self-supply if necessary*",[361] that it "*would consider self-supply to be more likely (or attractive) if the value created by 3PLs diminishes, or if 3PLs started increasing management fees*", and that "*if it became necessary to add a competitive edge, the customer*

[358] IR, Appendix C, paragraph C.16.
[359] IR, Appendix C, paragraph C.16.
[360] IR, Appendix C, Table C.3.
[361] IR, paragraph 5.44(b).

would consider" self-supplying outsourced sites".[362] [Redacted] further stated that "*the cost to switch to self-supply is fairly low*";[363]

(b) [Redacted] stated that it "*would consider self-supply more if there were significant negative effects from just having one supplier post-Merger*";[364]

(c) [Redacted] confirmed that "*insourcing decisions are made on a case-by-case basis*";[365]

(d) [Redacted] indicated that "*it does not have a specific financial threshold at which it would consider self-supply*" and would switch to self-supply if given a "*clear and compelling reason*";[366]

(e) [Redacted] feedback appears to have been mistakenly referring to its non-Grocery warehouses as its third-party feedback that a switch to self-supply would be "*a very big cultural shift*"[367] is illogical as it currently insources [Redacted] ([Redacted]) of its Grocery warehouses. [Redacted] was also considering the wrong question of insourcing "*all its warehouses*"[368] and therefore its evidence about needing to "*hire at least 100 additional staff*" which "*would probably require one year or more to find and recruit*" people is irrelevant;

(f) [Redacted] confirmed that since [Redacted] it has typically operated its warehousing inhouse and for new sites it will always operate these inhouse where feasible;[369]

(g) [Redacted] indicated that it will switch to self-supply if given a "*clear and compelling reason*" and if it "*is not satisfied with the services being offered by a 3PL, it always has the option of shifting its logistics operations inhouse*";[370] and

(h) [Redacted] confirmed that although it currently outsources all its warehouses "*it was capable of insourcing its logistics (in part due to owning all its assets) and indicated that it has significant internal expertise and knowledge of logistics*".[371]

e) Internal documents confirm the constraint of self-supply

(231) The IR refers to four internal documents as supporting the proposition that self-supply is a weaker constraint.[372] However, these documents refer to general CLS trends and are not specific to the Grocery sector where self-supply is more common.

362 IR, paragraph 5.62(a).
363 IR, paragraph 5.61(b).
364 IR, paragraph 5.60(c).
365 IR, paragraph 5.60(d).
366 IR, paragraph 5.62(b).
367 IR, paragraph 5.621(c).
368 IR, paragraph 5.61(a).
369 IR, paragraph 5.59(b).
370 IR, paragraph 5.60(a).
371 IR, paragraph 5.59(a).
372 IR, paragraph 5.67.

(232) The CMA refers to five other internal documents indicating self-supply imposes a competitive constraint,[373] two of which relate specifically to Grocers.[374] Additional internal documents confirm that self-supply imposes a competitive constraint:

(a) A tender document prepared [Redacted] in [Redacted] states that one of the options it was considering was insourcing [Redacted] food warehouses.[375]

(b) A GXO [Redacted] for a tender covering [Redacted] dedicated Grocery warehouses confirms that [Redacted] included an inhouse option for each depot in the tender process and benchmarked GXO's proposal against that inhouse option.[376] GXO assessed that this made winning "[Redacted]".

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373 IR, paragraph 5.66.
374 IR, paragraph 5.66.
375 CMA Issues Meeting Presentation (8 October 2024), slide 18.
376 [Redacted], page 2, provided as part of the Annex to respond to Question 14 of the CMA's Section 109 Notice dated 27 November 2024, submitted on 10 December 2024 and resubmitted on 13 December 2024) Question 14.

H. COMPETITIVE ASSESSMENT – DEDICATED WAREHOUSING FOR NON-GROCERY RETAIL CUSTOMERS

(233) The Parties agree with the IR's provisional conclusion that there are sufficiently strong competitive alternatives in the supply of dedicated warehousing for non-Grocery Retail customers but provide the following clarifications, supported by new evidence, to demonstrate that the IR's provisional conclusion is clearly correct, and the decision is not finely balanced.

(234) The Parties consider that the provisional conclusion is not finely balanced for the following reasons, which are set out further below:

(a) *First,* the IR identifies that a wide range of suppliers are regularly competing in and winning dedicated warehousing contracts for non-Grocery Retail customers, and these 3PLs are capable of servicing even the largest warehouse contracts. Competitor 3PLs have been persistently expanding their UK businesses during the last five years and have clear plans to continue this growth such that they would continue to impose an ever-stronger constraint on the Merged Entity.

(b) *Second*, third-party feedback from non-Grocery Retail customers was positive and the IR's minimal reference to negative comments from these customers demonstrates that there should be no concerns regarding the impact of the merger for these customers.

(c) *Third*, insourcing will continue to impose a meaningful constraint on 3PLs in tenders for non-Grocery Retail customers.

1. The competitor set is sufficiently strong in non-Grocery Retail

(235) *First*, the IR correctly identifies that there has been a number of 3PLs winning significant tenders for non-Grocery Retail customers between 2020 and 2024, indicating that the choice available to Retail customers post-Merger will not be limited to a small number of suppliers.

(236) For non-Grocery Retail warehousing opportunities tendered between 2020 and 2024, and worth more than £10m p.a., alongside self-supply, at least [10-20] 3PLs have competed successfully, including: [Redacted].[377] The IR states that Wincanton won [0-10] non-Grocery warehouse contracts ([Redacted])[378] worth more than £10m annually.[379] However, Wincanton estimates that the warehousing component of the [Redacted] tender was [Redacted] worth approx. £[Redacted]m p.a. and the sites Wincanton operates for [Redacted] are [Redacted].[380] Wincanton in fact won [0-10] dedicated non-Grocery warehousing [Redacted] worth more than £10m p.a. between 2020 and 2024. The tender data indicates that [10-20] 3PLs[381] performed as well as Wincanton during this period. This clearly demonstrates the healthy competition in this segment, with [Redacted] 3PLs able to impose [Redacted] on GXO and DHL post-Merger.

[377] Based on information available, [Redacted] appear to be [Redacted] out of the [Redacted] 3PLs listed in "other" for non-Grocery wins worth more than £10m. IR Appendix B, Table B.5.
[378] Identified based on the information available.
[379] IR, Appendix B, Table B.5.
[380] An estimated [70-80]% of the £[Redacted]m [Redacted] tender related to [Redacted].
[381] Including the [Redacted] 3PLs listed under "other". IR Appendix B, Table B.5.

(237) For opportunities with a warehousing revenue of more than £20m p.a., the IR confirms that tenders were won by five different competitors to the Parties (DHL, Culina, Arvato, Geodis, and Panther) and self-supply.[382] This included [0-10] tenders in which the Parties also participated and lost:

(a) [Redacted]. [Redacted];

(b) [Redacted]. [Redacted];

(c) [Redacted]. [Redacted]; and

(d) [Redacted]. [Redacted].

(238) In contrast, [Redacted] did not win any non-Grocery Retail warehousing contracts above £20m p.a. between 2020 and 2024, and in fact only bid for [0-10].383 [Redacted] has confirmed that it has not received any requests for proposals for non-Grocery warehousing contracts worth more than £20m to include in its current pipeline (excluding renewals). The tender data therefore indicates that [Redacted] 3PLs ([Redacted]) and self-supply imposed a stronger competitive constraint on GXO in the non-Grocery dedicated warehousing segment than [Redacted] during this 2020–2024 period. This is consistent with evidence regarding Retail warehousing generally. Table B.2 of the IR confirms that GXO lost more Retail warehousing opportunities by value to [Redacted] and self-supply than to [Redacted] over the period.[384]

(239) *Second*, the IR notes that for tenders above £40m p.a. the number of 3PLs competing successfully is more limited,[385] with [Redacted] stating that the Parties and DHL were the only 3PLs in the final stage of its procurement process.[386] However, this is not the case for all tenders worth more than £40m p.a.. GXO understands that (i) [Redacted] and [Redacted] [Redacted] tender process for [Redacted], with [Redacted] (£[Redacted]m); (ii) in [Redacted] tender worth approximately £[Redacted]m for [Redacted], the customer is [Redacted] with other 3PLs, likely [Redacted]; and (iii) [Redacted], [Redacted], and [Redacted] (the incumbent) also competed in the tender for [Redacted] with [Redacted] (worth £[Redacted]m).

(240) It should not be inferred, and the IR correctly does not conclude, that other competitors with smaller contracts[387] would be incapable of servicing contracts worth more than £40m p.a.. In the Parties' experience, applying a value threshold would be arbitrary as there is no evidence to suggest that value is causally linked to an increase in the difficulty of operations. For example, GXO's contracts with [Redacted] (£[Redacted]m) or [Redacted] (£[Redacted]m) would on the face of it appear to be more complicated to operate than [Redacted] warehouse in [Redacted]

382 IR, Table 5.3.
383 Based on the data available, of the [0-10] it bid for, it lost [0-10] to [Redacted], [0-10] to insourcing [Redacted] and [0-10] to [Redacted].
384 IR, Appendix B, Table B.2.
385 IR, paragraph 5.39.
386 IR, footnote 110. When considering the [Redacted] tender, it should be noted that this was held in [Redacted]. Several 3PLs have entered or continued to expand since [Redacted] (see paragraph (242) and this should not be probative of the state of competition in tenders today.
387 For example, Arvato for Uniqlo (£[Redacted]m p.a.), Bleckmann for Superdry (£[Redacted]m p.a.), ID Logistics for Zara (£[Redacted]m p.a.) and Geodis for Amazon (>£[Redacted]m p.a.), Post Update Call Paper, paragraph 2.10(a).

(dedicated solution – worth more than £[Redacted]m revenue) due to the [Redacted]. An increase in value generally means the warehouse sizes are larger with more employees. This does not in of itself bring new challenges. Particularly given the asset-light nature of CLS[388] and use of agencies to source labour.[389]

(241) Further, tenders with a value above £40m p.a. are often multi-site (e.g. GXO's single contract for [Redacted] consists of [Redacted] sizeable regional warehouses across the UK).[390] As a result, customers can modularise these contracts if preferable in future tenders. In any event, this size of tender is rare.[391] Indeed, between 2020 and 2024, GXO [Redacted] won [0-10] non-Grocery Retail dedicated warehousing tenders above £40m p.a. ([Redacted]) and Wincanton only participated in [0-10] ([Redacted]), and, as noted above,[392] [Redacted].

(242) *Third*, whilst the Parties acknowledge the IR's need to assess entry and expansion in relation to Retail dedicated warehousing as a whole,[393] it is clear that this is not necessary in relation to non-Grocery Retail customers. Indeed, on a plain reading the IR appears to focus its analysis of entry and expansion on the Grocery segment.[394] The competitor set for non-Grocery Retail customers is sufficiently strong. Several competitors have already significantly expanded their UK operations and are adopting UK growth plans (referenced in subparagraphs (a) to (e) below).[395] This is comprehensive evidence that comments referencing market consolidation are misplaced as they ignore substantial entry and expansion which has happened over time.[396]

(a) **Arvato Group** has significantly expanded its UK business over the last four years, increasing its UK warehousing footprint from approximately 344k to 947k sq. ft.[397] and Arvato "*expect[s its] growth to continue*" due to "*the onboarding of new clients*".[398] Relevant operations include (i) Uniqlo, at its site in Hams Hall Distribution Park – awarded in [Redacted] (£[Redacted]m);[399] and (ii) Avon, at its site in Corby, East Midlands spanning 334k sq. ft. – awarded in 2024.[400]

(b) **Bleckmann** has recently stated that "*the UK is an important growth market*"[401] and since its entry in 2014, it has expanded to operate over 2.8m sq. ft. of operational capacity in the UK,[402] serving key Retail customers.[403] Relevant operations include (i) Superdry, at the Duke site, Burton on Trent, awarded in 2024 and worth £[Redacted]m p.a.;[404] and (ii) Gymshark has

388 Merger Notice, paragraphs 209–239.
389 Post Update Call Paper, Section 3.
390 [Redacted]
391 IR, paragraph 5.39.
392 See paragraph (238)(238) above.
393 IR, paragraph 5.35 *et seq*.
394 IR, paragraphs 6.32, 6.34 and 6.36.
395 For further details of competitor dedicated warehousing capabilities see Post Update Call Paper, Section 2.
396 IR, paragraph 6.21 ([Redacted], [Redacted] and [Redacted]).
397 Arvato, "*Our Locations*", available here.
398 Arvato SCM UK Limited, "*Annual Report and Financial Statements accounts 2023*", page 4, available here.
399 Uniqlo, "*What is your online returns policy?*", available here.
400 Arvato, "*We take over Avon logistics centre in UK*" (2 May 2024), available here.
401 Bleckmann, "*Bleckmann adds two new sites in the United Kingdom*" (19 June 2024), available here.
402 Post Update Call Paper, paragraph 2.12(b).
403 Amazon, Gymshark, Lovevery, Lululemon, Superdry and Vivienne Westwood. Merger Notice, paragraph 417(5).
404 Bleckmann, "*Bleckmann takes over the logistics for SuperDry at "The Duke" site in Burton on Trent (UK)*" (3 June 2024), available here.

chosen Bleckmann to be its long term strategic partner signing up to an eight year contract at its site within Magna Park, Lutterworth (118k sq. ft).[405]

(c) **Culina's** UK revenue has grown by £0.8bn between 2019 and 2023 from £1.4bn to £2.2bn.[406] Its strategy has been to persistently expand via inorganic growth[407] and as a result currently operates 20m sq. ft. of warehousing across the UK.[408] Relevant operations include (i) John Lewis, Culina manages its site in Redditch spanning 238k sq. ft. on a 10-year contract awarded in 2017,[409] (ii) [Redacted], at [Redacted] sites in [Redacted], and (iii) [Redacted], awarded in [Redacted] and worth £[Redacted]m p.a. ([Redacted]). As discussed above, Culina has recently hired a new CEO, Liam McElroy, with significant UK Retail experience (see paragraph (101)(a) above).

(d) **Geodis**. In 2021, Geodis announced its five-year plan to double its CLS operations in the UK.[410] Today, it operates 1.9m sq. ft. of warehousing space across six warehouses, with 12 locations in the UK.[411] Relevant operations include two contracts for Amazon at its Lutterworth (tender worth >£[Redacted]m), and Doncaster sites. The sites were awarded in 2021 and span £1.1m sq. ft. with approximately 600 staff (increasing to 1,200 during the peak season).[412]

(e) **ID Logistics** entered the UK market in 2023 as part of its wider growth strategy in Europe. It plans to develop the UK business quickly,[413] including its senior management team[414] (see paragraph (101)(e) above**Error! Reference source not found.**). Relevant operations include its contract for Inditex, who sponsored its entry in part to diversify its 3PL suppliers.[415] Within one year of entry, it has tripled its warehouse space opening a new site in Northampton dedicated to servicing Zara, staffed by over 300 employees.[416]

(243) As discussed previously, there are several examples of non-Grocery Retail customers opting to sponsor the entry of suppliers with whom they have existing relationships.[417] This proves that any stringent requirements for sector specific experience or UK track record for these customers are surmountable. This will continue to act as a constraint on the Parties when tendering for these contracts going forward. The IR notes that [Redacted] was invited but chose not to

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405 Bleckmann, "*Gymshark and Bleckmann extend their UK contract for another 8 years*" (30 September 2021), available here.

406 ISM, slide 55.

407 See, Merger Notice, paragraph 449(b)(iv).

408 Post Update Call Paper, paragraph 2.12(d).

409 Savills, "*New owner for iForce distribution hub after £25 million sale*" (12 June 2017), available here.

410 Geodis, "*Geodis plans to double its Contract Logistics footprint in the UK*" (16 January, 2021), available here.

411 Geodis, "*About Geodis Group*", available here.

412 Doncaster site location available here; Lutterworth site location available here.

413 ID Logistics, "*Integrated Report 2023*" (6 June 2024), available here.

414 MotorTransport, "*Global supply chain giant ID Logistics Group ramps up drive into UK with new UK MD and Northampton site*" (11 September 2024), available here.

415 Merger Notice, paragraph 22(d); P1DR, 3.43(b).

416 Logistics Matters, "*ID Logistics triples UK space*" (13 September 2024), available here. In the first half of 2024 alone, ID Logistics recruited its UK Managing Director from DSV and its Head of Business Development from Wincanton.

417 P1DR, paragraphs 3.43 and 6.23. Examples include Superdry for Bleckmann (£[Redacted]m p.a.), Amazon for Geodis (£[Redacted]m), Mango for Arvato (£[Redacted]m p.a.) and Zara for ID Logistics (£[Redacted]m p.a.).

participate in one of [Redacted] tenders. This is a further example of a customer demonstrating its willingness to involve other competitors in its procurement process. Given the growth plans of certain competitors within Retail CLS, including [Redacted],[418] [Redacted] would have ample choice in any upcoming tenders.

2. Third party feedback from non-Grocery Retailers is positive

(244) Of the eight non-Grocery Retail customers the CMA consulted, six customers ([Redacted]) have either a positive or mixed/neutral view of the Merger. Further, of the non-Grocery Retail customers which fully outsource, no customer had a negative view of the merger ([Redacted])[419] There is also no indication from non-Grocery Retailers that smaller 3PLs would not be capable of servicing their needs. [Redacted] mentioned that it does not consider [Redacted] to have sufficient capabilities in the UK, but this is just one 3PL out of several competitors currently expanding in this market (see paragraph (242) above).

(245) Only [Redacted] Retail dedicated warehousing [Redacted] expressed a negative view of the Merger. [Redacted] was also identified as a negative third-party, but it is not a Retail customer (it wholesales [Redacted] to Retailers).[420] The IR's analysis in relation to both shared and dedicated warehousing focuses on the competition to supply Retail customers as other 3PLs ([Redacted]) are particularly strong in Non-Retail, and there is more of a limited overlap between the Parties for these customers.[421] [Redacted] also primarily procures shared warehousing and transport from [Redacted]. Its [Redacted] its 2024 logistics spend on warehousing was just £[Redacted]m.[422] This revenue is more akin to the average revenue generated by the Parties from shared warehousing customers.[423] [Redacted] is clearly out of scope in terms of a potential SLC, and its feedback should accordingly be disregarded.

(246) The evidence included in the IR on concerns regarding the Merger from [Redacted] (i.e. customers with negative or mixed views) is particularly limited. For instance, [Redacted] feedback is referenced only twice in the IR with neither instance referencing its concerns regarding the Merger.[424] To the extent it does have reservations about its options post-Merger, [Redacted] has strong relationships with other 3PLs[425] and self-supplies [Redacted] out of [Redacted] warehouses, meaning that ultimately self-supply is likely to be a strong constraint on any 3PLs invited to tender post-Merger. For customers with mixed or neutral views ([Redacted]), the IR does not reference any concerns that [Redacted] voiced about the impact of the Merger on their business.[426] As a result, the Parties have been unable to, at this

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418 [Redacted].

419 As discussed in Section 3 below, [Redacted] also raised concerns, but limited weight should be given to their feedback when considering an SLC in dedicated warehousing.

420 [Redacted].

421 IR, paragraphs 5.23 to 5.26.

422 In contrast, [Redacted] transport spend with Wincanton was £[Redacted]m.

423 IR, paragraph 5.27; Post-ISM Paper, paragraphs 6.15 and 6.19.

424 Firstly, that they were spoken to regarding "*the extent to which they consider self-supply to be a competitive alternative to outsourced supply*" (footnote 147) and secondly, that it self-supplies "*at least one dedicated warehouse*" (footnote 148).

425 It previously used [Redacted] to manage its [Redacted] dedicated warehouse in [Redacted] ([Redacted]) and currently uses [Redacted] as its distribution partner in [Redacted], [Redacted] and [Redacted]. See [Redacted].

426 [Redacted] feedback cited is limited to that (i) "*it self-supplies at least one dedicated warehouse*" (footnote 148) and (ii) its contract with [Redacted] is "*currently* [Redacted]" (footnote 267). [Redacted] concerns

stage, make informed submissions as to the gist of the CMA's case to the extent it relies on concerns raised by non-Grocery Retailers in relation to the Merger.[427] It is assumed that the CMA intends to give limited weight to this third-party feedback during its assessment of whether the potential SLC for non-Grocery Retail customers is finely balanced.

3. Self-supply will continue to impose a constraint on 3PLs competing for non-Grocery Retail contracts

(247) No feedback from non-Grocery Retailers suggested that self-supply was unsuitable. Indeed, between 2020 and 2024 non-Grocery Retailers took [0-10] warehouses back inhouse,[428] illustrating the constraint imposed by self-supply during this period.[429]

(248) Regarding their ability to self-supply, the Parties acknowledge that three non-Grocery customers ([Redacted]) commented that this was not part of their preferred business strategy. However, all three customers said that they *could* self-supply if required,[430] with [Redacted] noting that this would not be a "*major challenge*".[431] [Redacted] views are primarily used to identify the benefits of outsourcing versus insourcing.[432] For the reasons identified in paragraph (245) above, limited weight should be given to the CMA's assessment of whether to self-supply a Retail dedicated warehouse.[433] The IR is silent on whether a Retail customer's preferred strategy would change following a price increase or degradation in services.

(249) Non-Grocery Retail customers' ability to self-supply if required is consistent with third-party feedback that some non-Grocery customers chose to insource instead of adopting a proposed solution from GXO. The IR qualifies this by noting that these switches were due to strategic reasons as opposed to "*like-for-like*" switches.[434] It is arguable that every procurement choice, including the decision to continue to outsource, is a strategic decision which could impact the profitability of the business going forward (see paragraphs (170) to (172) and (218) above).

(250) In any event, there are several examples of non-Grocery Retail customers switching to self-supply where the rationale appears to be to run the same operations inhouse, including:

(a) [Redacted].

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regarding the merger are not clearly articulated in the IR. The comments quoted in the IR did not articulate concerns regarding how the merger who impact its business, but rather general comments on topics relating to the competitive assessment. Specifically, the IR confirms that [Redacted] said (i) it would prefer not to self-supply (paragraph 5.58); (ii) UK references/case studies from 3PLs are preferred (footnote 236); (iii) [Redacted] is not sufficient in the UK although it is a supplier in Europe (footnote 239); and (iv) that there has been significant consolidation in the market (paragraph 6.21).

427 CMA2, paragraph 17.15.

428 IR, Appendix B, Table B.5.

429 IR, Appendix B, Table B.5.

430 [Redacted]. IR, paragraphs 5.58, 5.60 and 5.61.

431 IR, paragraph 5.61(c).

432 In particular, the internal document cited at paragraph 5.58(e)(iii) referencing funding options and capital, and to a lesser extent its contributing comments at footnotes 152, 158, 162 and 166.

433 IR, paragraph 5.80.

434 IR, paragraph 5.63.

(b) [Redacted]. This example also demonstrates that Retail customers can and do self-supply CLS for new warehouses.

(c) [Redacted].

(251) In light of the factors above, the Parties do not consider the case for non-Grocery Retail customers to be finely balanced. Instead, a full and proper evaluation of the evidence clearly demonstrates that there will be no substantial lessening of competition for this group of customers as a result of the Merger.

TABLE OF ANNEXES

No.	Annex
Annex 001	Frontier Economics Methodology Note for Incentive Analysis
Annex 002	Frontier Economics Incentive Modelling Workbook
Annex 003	List of Grocery Dedicated Warehouses in the UK

GXO/Wincanton (ME/7099/24)

Frontier Economics methodology note to accompany the Modelling Analysis

12 March 2025

Introduction

1.1 Frontier Economics has developed an integrated analytical framework (the **Modelling Analysis**) which builds on the conclusions in the Interim Report (**IR**) regarding (i) self-supply, (ii) competitive threats posed by DHL and (iii) entry/expansion by other 3PLs.

1.2 The IR provisionally concludes that rival 3PL entry and/or expansion will sufficiently constrain the Merged Entity only once the new 3PL regularly participates in tender exercises and wins at least some with some regularity.[1] However, the IR does not reflect that the prospect of *future* entry and/or expansion can exert a competitive constraint *today* through dynamic competition. The Modelling Analysis expands on the IR by accounting for the deterrent effect of prospective entry on the Merged Entity today.[2]

1.3 The Modelling Analysis provides a simple, illustrative and holistic framework for addressing whether the Merged Entity would have an incentive to increase prices to Grocery customers. To do this, the Modelling Analysis compares any short-term benefits to the Merged Entity increasing its fees[3] with the countervailing risks that the Merged entity would incur due to such a fee increase – including longer-term risks/costs associated with stimulating entry/expansion by rival 3PLs.

1.4 The Modelling Analysis builds on the CMA's modelling analysis presented in Annex C to the IR. The CMA's analysis in turn drew on Frontier's January 2025 submission on insourcing, which assessed the incentive of GXO's largest customers to insource in response to a price increase.[4] Our updated analysis uses the outputs of the CMA's analysis as inputs and works with the provisional conclusions in the IR about the strength of the competitive constraint from DHL, self-supply and the entry/expansion of rival 3PLs.

1.5 This Annex is structured as follows:

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1 IR, paragraph 6.39.

2 That is, by weighing potential short-term gains from price increases against the risk of incentivising Grocery customers to support entry/expansion by other 3PLs (or to otherwise incentivise entry by another 3PL), who will be well-placed to win the opportunity in future rounds of bidding.

3 See Footnote 17 for a definition of "fees".

4 Frontier Insourcing Paper (Updated) submitted to the CMA on 14 January 2025.

1. Section 1 summarises the input data that we used for the Modelling Analysis;
2. Section 2 summarises the assumptions set out in the IR that underpin the Modelling Analysis, along with any additional assumptions that we have made;
3. Section 3 presents the results of the Modelling Analysis.

1.6 Alongside this methodology note we have provided an Excel workbook (**Annex 002**) setting out the inputs, calculations and results in full. Further explanatory notes to assist in navigating the attached Excel workbook are provided in an Appendix to this note.

1. Data sources

1.7 Consistent with previous modelling submissions – and with the CMA's own quantitative assessment of incentives to insource in the IR – the Modelling Analysis focuses on the contract logistics services that GXO provides to its largest grocery customers: [Redacted].[5, 6]

1.8 The Modelling Analysis focuses on all open-book contracts for these Grocers, which account for the large majority of business that GXO does with these customers.[7]

5 While the analysis focuses on GXO, in practice this list also includes [Redacted].

6 For the purpose of consistency, our Modelling Analysis is based on the same contracts as Frontier's January 2025 submission on incentives to insource and the modelling analysis that the CMA presented on the constraint from insourcing in Annex C to the IR. This largely excludes contracts that are not directly related to warehousing and/or transport services in which the Parties compete (such as contracts for RRUs [Redacted]). One exception that we have included in the interests of being conservative is [Redacted] RRU work for [Redacted]. While the Parties do not overlap in this area, RRU work [Redacted] and ignoring it would result in excluding [Redacted] from the assessment altogether ([Redacted]). The results therefore overstate the potential impact of the Transaction on pricing incentives, since they include services to a leading Grocery customer where the Parties do not overlap.

7 For the purposes of our modelling analysis we have excluded [Redacted] contract – which we initially included in our Frontier Insourcing Paper – as it is closed book. This is because – consistent with the CMA's quantitative assessment of customers' incentives to insource in the IR – our analysis focuses on a hypothetical increase in open-book management fees.

1.9 The financial variables that we use in the Modelling Analysis – including management fees, gainshare benefits/payments and profit margins – are specific to each customer contact and [Redacted].

1.10 Table 1 below sets out (i) the inputs that have been used in the analysis; (ii) their sources; and (iii) how they compare to inputs underpinning the previous Frontier Insourcing Paper submission to the CMA.[8]

Table 1 Overview of inputs into the Modelling Analysis

Input	Description	Source	Notes
Contract value (£)	Total expected contract value for each Grocer contract.	[Redacted]	The input is in line with the original input in the Frontier Insourcing Paper (Table 1).
Management fee (£)	Total expected management fee for each Grocer contract.	[Redacted]	This input is in line with the original input in the Frontier Insourcing Paper (Table 1).
EBITDA (£)	Total expected EBITDA (after overheads) – as a profit measure – for each Grocer contract.	[Redacted]	This variable was newly introduced into the model.
Gainshare to customer (£)	Total expected cost savings delivered to a customer by GXO though a gainshare arrangement	[Redacted]	The input is in line with the original input in the Frontier Insourcing Paper (Table 1).

8 Frontier Insourcing Paper (Updated) submitted to the CMA on 14 January 2025.

Input	Description	Source	Notes
	(above and beyond any cost underwrite commitment) for each Grocer contract, net of any gainshare payments to GXO.		
Gainshare to GXO (£)	Total expected payments to GXO under gainshare arrangements for each Grocer contract.	[Redacted]	The input is in line with the original input in the Frontier Insourcing Paper (Table 1).
Underwrite (£)	Total expected operational savings that GXO agrees to underwrite (i.e. guarantee to customers) for each Grocer contract.	[Redacted]	This in line with the submissions in the Frontier Insourcing Paper (Table 1).
WACC (%)	Weighted average cost of capital (used as a discount rate), individualised for customers and GXO.	Bloomberg	Customer WACC estimates are in line with the submissions in the Frontier Insourcing Paper (Table 1). The GXO WACC estimate was not required for the Frontier Insourcing Paper and

Input	Description	Source	Notes
			has been sourced from Bloomberg.[9]
Contract lifetime (years)	Length of each Grocer contract is used to estimate the average annualised values of financial metrics for these contracts	[Redacted]	This in line with the submissions in the Frontier Insourcing Paper (Table 1).
Incremental labour costs from insourcing (£)	Ongoing labour costs associated with hiring senior logistics management staff in the event that the customer decides to insource. These are ongoing costs which are customer specific. These the present values of these ongoing incremental costs are calculated using customer-specific WACC estimates as discount rates.	[Redacted] Frontier Economics estimated the labour costs that would be borne by each customer (the methodology for such estimates was presented in all three insourcing papers submitted to the CMA,[10] the values in this paper are adjusted for the number of operations relevant for this model).	This methodology is in line with the submissions in the Frontier Insourcing Paper (Table 1).

9 We have introduced WACC for GXO, as a proxy for the WACC of the Merged Entity, in order to discount the returns that the Merged Entity would get under different pricing strategies noted in our Modelling Analysis. This allows us to calculate the expected net present value of different pricing strategies.

10 Annex 005 to the Annotated Issues Letter, Frontier Insourcing Paper submitted to the CMA on 24 December 2024, Frontier Insourcing Paper (Updated) submitted to the CMA on 14 January 2025.

Input	Description	Source	Notes
CMA's illustrative price rises (%)	The CMA's estimates of the price increases that the Merged Entity could sustain without incentivising each customer to insource, computed as a function of the CMA's parameter *x* (the percentage of efficiencies that the customers can replicate when insourcing).	IR, Appendix C	The variable is newly introduced into the model.

2. Methodology

Assumptions underpinning the Modelling Analysis

1.11 The Modelling Analysis compares any short-term benefit to the Merged Entity from increasing fees post-merger with the long terms costs that the Merged entity would incur due to such a fee increase.

1.12 The **key assumptions** underpinning the Modelling Analysis are as follows:

frontier economics

(a) The time horizon within which the Merged Entity assesses the costs and benefits of a price increase is **10 years**. It comprises **two consecutive contracts** – each for a **period of five years** (below we refer to these periods as **Period 1** and **Period 2**).[11]

(b) At the start of each period the Merged Entity sets its prices. After the prices are set for each period, the Merged Entity may or may not be chosen to fulfil the contract for that period.

(c) When setting the price for each customer, the Merged Entity faces three competitive constraints recognised by the CMA in the IR: (i) DHL, (ii) self-supply and (iii) entry and expansion from other 3PLs. The constraints that they exert in each period are assumed to be as follows:

(i) **Period 1:** The Merged Entity is constrained by two competitive factors identified in the IR:

(A) *Insourcing:* The Merged Entity could not increase prices beyond the level at which customers would find it more cost-effective to insource services (calculated using the CMA figures set out in the IR);[12] and

(B) *In-market competition:* The Merged Entity could not increase prices beyond the level at which customers would switch to DHL. The Modelling Analysis conservatively assumes that Merged Entity could increase its fees by up to 50% in Period 1 without triggering a switch to DHL. For illustrative purposes, the model assumes that there is headroom to raise fees by up to 50% post-Merger before triggering customers to switch, which is highly conservative given the closeness and credibility of DHL as a competitor, and the constraint DHL itself faces from self-supply and the threat of new entry. This assumption is informed by

11 As set out in previous submissions, the duration of grocery CLS contracts varies from contract to contract, but typically lasts 3-5 years. In the interests of being conservative, Frontier's modelling took the upper end of this range and assumed a 5-year contract length – meaning that 3PL entry/expansion in Round 2 would occur 5 years after the Round 1 price increase. This is conservative because assuming rival 3PL entry/expansion after, for example, 3 years (rather than 5 years) would reduce the profitability of a price increase strategy.

12 IR, Appendix C, Table C.2.

standard economic models which predict that for a pure “3-to-2” merger in a bidding market, equilibrium prices could increase by at most 50%.[13]

(ii) **Period 2:** The Modelling Analysis conservatively assumes that entry and expansion of rival 3PLs will not occur in Period 1,[14] but will occur in Period 2 if the Merged Entity increases the price in Period 1. Therefore, the Merged Entity’s ability to increase price in Period 2 is constrained by (i) the price at which each a customer will switch to self-supply, (ii) DHL and (iii) 3PL entry and expansion;

1.13 The table below sets out how the Merged Entity’s resulting pricing decision in Period 1 is modelled as the difference in net present value (**NPV**) of the expected future profits that the Merged Entity will earn from its Grocery customers across two strategies – **Strategy 1 (No price increase)**; and **Strategy 2 (Post-merger price increase)**. Under each strategy, the NPV is a function of the price set by the Merged Entity; the probability of winning/retaining business with each Grocery customer (which is affected by the customers’ response, and assumptions on the level of competition); and the timing of the pay-offs from different strategies.

1.14 Table 2 below sets out further – more detailed – assumptions for the Modelling Analysis .

13 This implies that if either supplier sought to increase prices by more than 50%, customers would switch. In a first-price reverse (procurement) auction, the value of the equilibrium bid increases by a maximum of 50% when reducing the number of participating bidders from 3 to 2, assuming uniformly distributed common costs across bidders. Mathematically, the equilibrium bid b is a function of the bidders’ common cost c and the number of bidders n: $b(c,n) = \frac{n-1}{n}c + \frac{1}{n}$

The maximum increase in the equilibrium bid when moving from 3 to 2 bidders occurs when assuming $c = 0$, which simplifies the above equation to $b(0,3) = \frac{1}{3}$ and $b(0,2) = \frac{1}{2}$, respectively, which implies a 50% increase ($\frac{1}{2} - \frac{1}{3} = \frac{1}{6}$).

14 This is conservative, as the IR provisionally finds that it is likely that a Grocer would sponsor the entry of a new 3PL, IR paragraph 6.28. This could result in Grocers awarding contracts to new 3PLs in Period 1 already.

Table 2 Detailed assumptions underpinning the Modelling Analysis

Modelling step	Strategy 1 – No price increase	Strategy 2 – Post-merger price increase
Calculation of NPV of different pricing strategies	For each Strategy, the value to the Merged Entity is computed as the NPV of the future gains from the strategy. That is the payoff to the Merged Entity for each customer *i* under either Strategy 1 or 2 is: $$NPV_{i,1} = P_{1,1} * \sum_{t=1}^{5} \frac{R_i}{(1+WACC)^{t-1}} + P_{2,2} * \sum_{t=6}^{10} \frac{R_i}{(1+WACC)^{t-1}}$$ $$NPV_{i,2} = P_{2,1} * \sum_{t=1}^{5} \frac{R_i + Uplift_i}{(1+WACC)^{t-1}} + P_{2,2} * \sum_{t=6}^{10} \frac{R_i}{(1+WACC)^{t-1}}$$ Where: • R_i is the annual return or profit (in terms of EBITDA to the Merged Entity) that would be earned for the given customer *i* in the pre-merger scenario; • $P_{s,r}$ is the probability of the Merged Entity winning in Period *r* for that strategy *s*; • $Uplift_i$ represents the customer-specific price increase (as a percentage of the total management fee) under Scenario 2, and is assumed to be zero in Scenario 1;	

Modelling step	Strategy 1 – No price increase	Strategy 2 – Post-merger price increase
	• WACC represents the WACC used to discount the figures – this is based on GXO's WACC of [Redacted]%. The merged entity will find it profitable to increase prices in Period 1 if $$NPV_{Str\,2} - NPV_{Str\,1} > 0$$	
Price in Period 1	The Merged Entity retains its pre-merger levels of price (i.e. R_i).	The Merged Entity increases its prices as much as possible without causing customers immediately to switch away (by factor $Uplift_i$). $Uplift_i$ is a factor of: ■ the level of pricing that would incentivise each customer to insource (computed on the basis of the figures set out in the IR by the CMA and as set out in Table 1).[15] ■ the level of pricing that would be likely to lead customers to switch to DHL. In the baseline scenario this means the price

15 The uplift is therefore a function of the CMA's parameter *x*, the percentage of efficiencies delivered by 3PLs that the customers can replicate after insourcing.

Modelling step	Strategy 1 – No price increase	Strategy 2 – Post-merger price increase
		increase will not be higher than [Redacted].[16]
Probability of the Merged Entity retaining each Grocery customer in Period 1	This is assumed to be 100% given that the Merged Entity continues to set competitive prices competitively in this scenario.	This differs across scenarios (as set out below) depending on assumptions on incumbency advantage and the constrain played by DHL.
Price in Period 2	Price is assumed to be the same as in Period 1.	Any Period 1 price increases are reversed in Period 2 as a result of countervailing market entry by rival 3PLs.
Probability of the Merged Entity retaining each Grocery customer in Period 2	This is assumed to be 100% given that the Merged Entity continues to set competitive prices competitively in this scenario.	The probability of winning will be lower than under Strategy 1. This is because Customers will switch to these new entrants with a positive probability in Period 2, reducing the probability of the Merged Entity compared to a Baseline Scenario

Source: Frontier Economics analysis

16 For further information, please see footnote 13 above.

Assumed fee increases that the Merged Entity can sustain without immediately triggering customers to insource or switch to DHL in Period 1

1.15 Table 3 below sets out the theoretical fee increases that the Merged Entity could sustain without immediately triggering customers to insource of switch to DHL in Period 1 Uplift figure presented in Table 1.

1.16 These estimates are taken from the CMA's own analysis in Annex C to the IR, in which the CMA sets out its estimates of the fee increases that the Merged Entity could sustain without immediately triggering customers to insource. While taking this as our baseline, we have overlaid a further assumption that, given the additional competitive constrained placed by DHL on the Merged Entity alongside the threat of self-supply, the Merged Entity cannot increase its fees by more than 50%. As per the CMA's own modelling analysis in the IR, this figure varies depending on the assumptions one makes about the percentage of outsourced efficiencies provided by 3PL that each customer would be able to replicate after insourcing (parameter '*x*').[17]

[17] Consistent with the CMA's terminology in the IR, the hypothetical "price increase" refers to an increase in the fees charged by the Merged Entity. For an open-book contract, this could include the management fee and/or bonus payments negotiated for achieving cost efficiencies under a gainshare arrangement. While the Modelling Analysis considers a price increase, its conclusions also extend an equivalent reduction in service quality, such as reduction in the level of cost saving that the Merged Entity is willing to underwrite or pass through.

Table 3 Assumed maximum percentage increase in management fee that the Merged Entity could sustain in Period 1 without immediately triggering the customer to insource or switch to DHL

Customer name	x=0%	x=10%	x=20%	x=30%	x=40%	x=50%	x=60%	x=70%	x=80%	x=90%	x=100 %
[Redacted]	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
[Redacted]	23%	15%	7%	0%	0%	0%	0%	0%	0%	0%	0%
[Redacted]	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
[Redacted]	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	39%
[Redacted]	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
[Redacted]	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
[Redacted]	50%	50%	50%	50%	50%	50%	50%	50%	50%	46%	30%
[Redacted]	50%	50%	50%	46%	37%	28%	20%	11%	2%	0%	0%

Source: Frontier Economics analysis of GXO data

Caveats and limitations associated with this baseline model

1.17 The Modelling analysis is conservative – and is likely to underestimate the costs and risks that increasing prices would create for the Merged Entity with increasing prices – in several respects:

- **The Modelling Analysis does not consider the significant wider long-term costs of triggering entry/expansion by another 3PL.** Our approach is conservative in that it assumes that the Merged Entity will only consider the impact of its pricing decisions on expected future profits in Periods 1 and 2. However, As discussed in the response to the IR, once the new 3PL has established the necessary "*track record*" – the only material barrier to entry identified in the IR – it could compete effectively and potentially take business from the Merged Entity — either from the same customer (e.g. for new sites or contract renewals after Period 2) or from another Grocer. In addition, increasing prices for a single Grocery contract could have broader implications for the relationship with the Grocer. The Grocer may become more likely to insource future contracts or sponsor the entry of a new 3PL using a different warehousing contract.

- **The baseline model assumes that the Merged Entity has perfect information about each customer's willingness to pay** and that the Merged Entity could raise prices to exactly the point at which each Grocers would be willing to switch to insourcing or DHL. As discussed in the response to the IR, in reality, the Merged Entity lacks this level of visibility, increasing the risk of losing business if it increases prices or reduces its service quality. This means that if the Merged Entity were to pursue a price increase strategy in reality, it would likely shade down its price increases below the levels modelled in our baseline analysis, so as to reduce the risk of it inadvertently overstepping the mark and causing some customers to switch – further reducing the profitability of a price increase strategy below the levels that we have modelled in our baseline analysis. Even then, there would still be a risk of the customer insourcing or switching to DHL in response to the price increase, which again our baseline model does not consider.

3. Results of analysis

Scenarios considered in the incentives analysis

1.18 The Modelling Analysis considers several scenarios as summarised below and in Table 4:

- **Scenario A - Baseline:** as described above; and
- **Scenario B** – this scenario is identical to the baseline, with the exception that it includes GXO cost underwrites in the outsourced efficiency gains that each customer might forego in the event that it chooses to insource. In this respect the scenario is more conservative than both the baseline scenario and the modelling work that the CMA presents in the IR which only considers gainshare-related efficiency improvements when considering the outsourced efficiency gains that each customer might forego.
- **Scenario C** – Identical to the baseline scenario but introduces an assumption that there is a small positive risk that increasing prices in Period 1 will lead customers to switch to DHL or insource. This scenario illustrates how the results change when one relaxes the assumption that the Merged Entity has full insight into each customer's preferences and their likelihood of switching suppliers or insourcing – meaning that there is a risk that the prices it sets overstep the mark and cause some customers to switch to DHL or insourcing, as well as triggering customers to support entry/expansion in subsequent contract tenders. Specifically, we consider a scenario in which the Merged Entity faces a 20% risk of losing business in Period 1 in the event that it increases prices.
- **Scenario D** – identical to Scenario C, but assesses how the results would change if there were additional "hard to quantify" benefits associated with outsourcing over and above the quantifiable benefits that have already modelled in Scenarios A, B and C. For illustrative purposes we have considered a scenario where these "hard to quantify" benefits are as large as the management fee (i.e. singlehandedly large enough to incentivise Grocery customers to outsource today, even before taking account of the quantifiable benefits).

Table 4 Scenarios considered in the incentives analysis

Model parameters	Scenario A (Baseline)	Scenario B: Including underwrite	Scenario C: risk of Period 1 customer switch	Scenario D: Factoring in hard-to-quantify benefits
Includes underwrite?	No	Yes	No	No
Probability of winning in Period 1 if no price increase	100%	100%	100%	100%
Probability of winning in Period 2 if no price increase	100%	100%	100%	100%
Probability of winning in Period 1 if price increase	100%	100%	80%	80%
Probability of winning in Period 2 if price increase	Various possibilities considered - see output table	Various possibilities considered - see output table	Various possibilities considered - see output table	Various possibilities considered - see output table

Source: Frontier Economics analysis

Note: All scenarios assume that DHL is a competitive constraint, and that customers will switch to DHL if the Merged Entry increases its prices above 50%.

Results for each scenario

Scenario A – Baseline analysis

- Figure 1 below shows the output of our baseline analysis. Each cell in this matrix shows a count of the number of GXO Grocery customers for whom the short-term benefits of a price increase outweigh the long-term costs – meaning the Merged Entity would, according to this model, have an incentive to increase prices in Period 1. For the reasons outlined above this will be a function of:
  - the proportion of 3PL efficiency savings that the customer can achieve if it insources – represented by the **columns** in the matrix, ranging from 0% to 100%; and
  - the probability of the merged business retaining the contract in Period 2 if it increases prices in Period 1 and thereby stimulates entry by rival 3PLs – represented by the **rows** in the matrix, ranging from 100% to 0%.
- The red cells in the matrix highlight the scenarios in which, according to the model, it would be profitable for the Merged Entity to increase prices in Period 1 for at least one Grocery customer. The green cells highlight the scenarios in which it would not be profitable to increase prices for any Grocery customers.

Figure 1 Scenario A: Counts of number of customers for which the Merged Entity would an incentive to increase prices in Period 1 – baseline scenario

		Proportion of 3PL efficiency savings that customer can achieve if it insources										
		0%	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**	**100%**
Probability of the Merged Entity retaining the contract in Period 2	**100%**	5	5	5	5	4	0	0	0	0	0	0
	90%	5	5	5	3	2	0	0	0	0	0	0
	80%	5	4	3	2	0	0	0	0	0	0	0
	70%	2	2	1	0	0	0	0	0	0	0	0
	60%	1	1	1	0	0	0	0	0	0	0	0
	50%	0	0	0	0	0	0	0	0	0	0	0
	40%	0	0	0	0	0	0	0	0	0	0	0
	30%	0	0	0	0	0	0	0	0	0	0	0
	20%	0	0	0	0	0	0	0	0	0	0	0
	10%	0	0	0	0	0	0	0	0	0	0	0
	0%	0	0	0	0	0	0	0	0	0	0	0

Source: Frontier Economics analysis of GXO data and CMA calculations in the IR.

- As the baseline results table above illustrates, for the large majority of parameter combinations (represented by the green cells), the Merged Entity would not have an incentive to increase prices for any Grocery customers. In fact, the analysis shows that the Merged Entity would have no incentive to increase fees for any Grocery customers in any scenario where there is at least a 50% chance that customers – having supported new entry/expansion in response to a Period 1 price increase – would follow through and switch to the new 3PL (or alternatively to DHL) in Period 2. For the reasons set out in the response to the IR, there is a high likelihood that customers would switch in such a scenario.

- Furthermore, these conclusions remain unchanged, even when accounting for the "hard to quantify" benefits outlined in the IR.[18] Even under the conservative assumption that these benefits make all Grocers reluctant to insource, the Merged Entity would still have no incentive to raise prices unless it was at least 50% certain that doing so would not prompt Grocers to switch to a new 3PL or DHL in Period 2. This can be seen by replicating the Scenario A results the accompanying Excel workbook and then switching "*Apply additional, hard-to-quantify benefits from outsourcing*" to "*Yes*" in the Dashboard tab (cell C12).

Scenario B – scenario in which customers also potentially forego cost savings underwritten by the Merged Entity in the event that they insource

- As noted above, Scenario B is identical to the baseline scenario, with the exception that it includes GXO cost underwrites in the outsourced efficiency gains that each customer might forego in the event that it chooses to insource. In this respect the scenario is more conservative than both the baseline scenario and the modelling work that the CMA presents in the IR which only considers gainshare-related efficiency improvements when considering the outsourced efficiency gains that each customer might forego.

- The table below sets out the results associated with this analysis, as can be seen they do not significantly change from the baseline results set out for Scenario A above. For the large majority of parameter combinations, the Merged Entity would not have an incentive to increase prices for any Grocery customers.

18 IR, Appendix C, C.32.

Figure 2 Scenario B: Counts of number of customers for which the Merged Entity would have an incentive to increase prices in Period 1 –scenario in which customers potentially forego cost savings underwritten by 3PLs in the event that they insource

		Proportion of 3PL efficiency savings that customer can achieve if it insources										
		0%	**10%**	**20%**	**30%**	**40%**	**50%**	**60%**	**70%**	**80%**	**90%**	**100%**
Probability of the Merged Entity retaining the contract in Period 2	**100%**	5	5	5	5	4	1	1	0	0	0	0
	90%	5	5	5	3	3	1	0	0	0	0	0
	80%	5	4	3	3	1	1	0	0	0	0	0
	70%	2	2	2	1	1	0	0	0	0	0	0
	60%	1	1	1	0	0	0	0	0	0	0	0
	50%	0	0	0	0	0	0	0	0	0	0	0
	40%	0	0	0	0	0	0	0	0	0	0	0
	30%	0	0	0	0	0	0	0	0	0	0	0
	20%	0	0	0	0	0	0	0	0	0	0	0
	10%	0	0	0	0	0	0	0	0	0	0	0
	0%	0	0	0	0	0	0	0	0	0	0	0

Source: Frontier Economics analysis of GXO data.

Scenario C – introducing a risk that the Merged Entity will lose business in Period 1 if it increases prices

- The table below illustrates how the baseline modelling results change when one relaxes the assumption that the Merged Entity has full insight into each customer's preferences and their likelihood of switching suppliers or insourcing – meaning that there is a risk that the prices it sets overstep the mark and cause some customers to switch to DHL or insourcing, as well as triggering customers to support entry/expansion in subsequent contract tenders. For the reasons explained above and in the response to the IR, this is more realistic than the baseline scenario as, in reality, the Merged Entity lacks this level of visibility of each customer's subjective preferences with regard to insourcing and different 3PLs.
- As shown in **Error! Reference source not found.** below, even if increasing prices only led to 20% risk of the Merged Entity losing business to DHL and/or self-supply in Period 1, this would be sufficient to eliminate any incentive for the Merged Entity to raise prices, even under the most conservative assumptions about the risk of the customer losing business following entry in Period 2.

Figure 3 Scenario C: Counts of number of customers for which the Merged Entity would have a short-run incentive to increase prices –scenario in which the Merged Entity has a 20% chance of losing business in Period 1 if it increases prices

		Proportion of 3PL efficiency savings that customer can achieve if it insources										
		0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Probability of the Merged Entity retaining the contract in Period 2	100%	2	2	1	0	0	0	0	0	0	0	0
	90%	0	0	0	0	0	0	0	0	0	0	0
	80%	0	0	0	0	0	0	0	0	0	0	0
	70%	0	0	0	0	0	0	0	0	0	0	0
	60%	0	0	0	0	0	0	0	0	0	0	0
	50%	0	0	0	0	0	0	0	0	0	0	0
	40%	0	0	0	0	0	0	0	0	0	0	0
	30%	0	0	0	0	0	0	0	0	0	0	0
	20%	0	0	0	0	0	0	0	0	0	0	0
	10%	0	0	0	0	0	0	0	0	0	0	0
	0%	0	0	0	0	0	0	0	0	0	0	0

Source: Frontier Economics analysis of GXO data and CMA calculations in the IR.

Scenario D – Factoring “hard to quantify” benefits into the analysis

- In the IR the CMA suggests that any quantitative analysis of the constraints imposed by self-supply on the Merged Entity may understate some customers’ reluctance to insource due to certain benefits of outsourcing that are inherently “hard to quantify”. For the reasons set out in the response to the IR, the Parties do not consider these “hard to quantify” benefits to be material considerations for most grocery customers in practice. However, it should be noted that even if these additional benefits of outsourcing were substantial, they would not materially alter the conclusions of the analysis set out above.

- This is illustrated in Figure 4 Figure 4 below, which shows how the results of Scenario C (Figure 3) would change if the “hard to quantify” benefits of outsourcing alone were as large as the management fee (i.e. singlehandedly large enough to incentivise Grocery customers to outsource today, even before taking account of the quantifiable benefits). As Figure 4 shows, even for this scenario it would still not be in the financial interests of the Merged Entity to increase its prices unless it could be 100% certain that it could do so without prompting customers to switch to a new entrant or DHL in Period 2. For the reasons outlined above, in reality the risk of the Merged Entity losing business following an unjustified price increase to a sophisticated customer with competitive outside options would be considerable higher than this.

Figure 4 Scenario D: Counts of number of customers for which the Merged Entity would have an incentive to increase prices in Period 1 – scenario with sizeable “hard to quantify” benefits of outsourcing

		Proportion of 3PL efficiency savings that customer can achieve if it insources										
		0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Probability of the Merged Entity retaining the contract in Period 2	100%	5	5	5	5	4	3	3	3	1	1	1
	90%	0	0	0	0	0	0	0	0	0	0	0
	80%	0	0	0	0	0	0	0	0	0	0	0
	70%	0	0	0	0	0	0	0	0	0	0	0
	60%	0	0	0	0	0	0	0	0	0	0	0
	50%	0	0	0	0	0	0	0	0	0	0	0
	40%	0	0	0	0	0	0	0	0	0	0	0
	30%	0	0	0	0	0	0	0	0	0	0	0
	20%	0	0	0	0	0	0	0	0	0	0	0
	10%	0	0	0	0	0	0	0	0	0	0	0
	0%	0	0	0	0	0	0	0	0	0	0	0

Source: Frontier Economics analysis of GXO data and CMA calculations in the IR.

Appendix: Overview of accompanying Excel model

The excel workbook setting out the input data and calculations underpinning these results in full is provided as **Annex 002**. The workbook is structured as follows:

- Tab “**Inputs**” includes the inputs to the analysis, as set out in Table 1 above;
- Tab “**Dashboard**” allows the choice of modelling parameters, including:
  - the assumed percentage of outsourced efficiency gains a customer could achieve in-house;
  - whether to include efficiencies underwritten by 3PLs (in addition to efficiencies that 3PLs seek to achieve through gainshare arrangements) in the list of cost savings that customers would potentially forego in the event that they insource (as per Scenario B above);
  - whether to assume that there are additional “hard to quantify” benefits of outsourcing that should be included in the assessment (as per Scenario D above) and, if so, how significant they would be; and
  - the assumed contract renewal success probability in Period 1 and Period 2, across Strategy 1 (the scenario where the Merged Entity does not increase prices) and Strategy 2 (the scenario where the Merged Entity increases prices). For example, one should set the probability of renewal success in Period to 80% for Strategy 2 in order to replicate the results for Scenarios C and D above).
- For each customer under each scenario, the model computes the NPV of the Merged Entity’s future profits under Strategy 1 (the scenario where the Merged Entity does not increase prices) and Strategy 2 (the scenario where the Merged Entity increases prices), as well as the difference in NPV across these two strategies. These results are computed and presented in the Dashboard tab, cells C30-C37.
- The results for each customer are aggregated for each scenario, to provide a summary of whether a price-increase strategy would be profitable compared to a strategy to hold prices constant, for different values of:
  - the share of efficiencies achieved by the 3PL that the customers are able to replicate after in-sourcing; and
  - the probability of the Merged Entity retaining the customer in Period 2 if it increases prices in Period 1.