

PORK FARMS CASPIAN / KERRY FOODS MERGER INQUIRY

Summary of hearing with Tesco Stores Limited on 11 March 2015

Background and introduction

1. Tesco Stores Limited (Tesco) said that it saw its CSP business as representative of UK retailers. Its CSP business was worth about £[redacted] million a year in sales, and was growing by about [0–5]%. Although Tesco had seen limited growth over the last two years, the overall CSP market was growing at 2% per year, much of this growth coming from the discount retailers, such as Aldi and Lidl.
2. Tesco's core suppliers of CSP products had not changed over the last five years.
3. Tesco said that there was regional demand behaviour for CSP products with the majority being in Scotland, as there was a lot more branded, regional hot pie suppliers there. Wales was also an example of regional demand where the majority of people that bought savoury pastries would want to buy Peter's products. There was also the Holland's brand, which was strong in Northern England.
4. Tesco said its local presence was [20–30]% of the hot pie sales market, with sales of the major brands, such as Pukka Pies and Ginsters, equating to around [10–20]%, and own-label equating to about [50–60]%.
5. Tesco said CSP products tended to appeal to [redacted] customers and that the sale of CSP products was very promotionally driven. For example, if its weekly sale was about £[redacted] million, [20–30]% of that would be bought from aisle ends (promotions). Tesco's biggest line within the category was Everyday Value Sausage Rolls.
6. Tesco said that the range of CSP products it stocked in its convenience stores was identical to the range stocked in its supermarkets. Tesco's suppliers were under the same contracts and used the same distribution channels to supply its convenience stores as they used to supply its supermarkets. However, it would flex the range stocked in convenience stores to match local demand in the convenience stores.

7. Tesco said that there was seasonality in demand for CSP products. In hot pies its sales were about £[redacted] million a week through the winter periods, but during the summer periods, that fell to about £[redacted] million a week. However, for sausage rolls, pork pies and quiches, sales would increase [10–20]% during the summer periods. Tesco said that there had not been much innovation within the CSP sector, although suppliers were always seeking to increase brand presence.

Own-label and brands

8. Tesco said that own-label tiering was very price driven. The Tesco Finest category equated to about [0–10]% of sales, the Value category was about [10–20]%, and the Standard category around [80–90]%.
9. Branded sales made up around [20–30]% of its CSP category sales. The key brand was Ginsters within the category, and was worth about [10–20]% of overall CSP business. The next largest brand was Wall's sausage rolls, which was worth about [0–10]%. There were two key brands for pork pies: Pork Farms and Ginsters.

Demand-side and supply-side substitution

10. Tesco said that with regards to price, products were substitutable. It had tried to adopt a very stable pricing policy as that appealed to customers. When faced with a 3-5% price increase from a supplier, Tesco would [redacted].
11. Tesco believed that there was substitutability between brands, for instance between an own-label individual pork pie and a Pork Farms product or a Ginsters product, and within hot pies, between different flavours, such as a steak pie or a chicken pie.
12. Tesco said that supply-side substitution did exist, but different products performed better than others. A manufacturer could produce any CSP product as long it had the right type of machinery.
13. The only sector with supply-side issues was pork pies. That was because different trays were used to bake them. Pork pie manufacture was also very regional; for example a manufacturer in the Melton Mowbray area could produce Melton Mowbray pork pies but outside that area could not. Also, the Cornish pasty could only be produced in Cornwall.

Tendering and retailer behaviour

14. Tesco said that because sales had been static over the [redacted]. It had worked with current suppliers to identify key trends, and the best sellers, [redacted]. Tesco

said it had a collaborative relationship with its suppliers where it believed loyalty existed, and it had worked hard with its existing suppliers to ensure it paid fair prices. However, should Tesco need to source from other suppliers it said it would be open to discussion, but the prospective supplier would need to pass the audits set by Tesco (such as capacity and production standards).

15. Tesco said it had responded to changes in the rates of sale of branded products by moving levels of supply across brands. However, Tesco would always negotiate with its suppliers to get the best price possible.
16. Tesco would be willing to use multiple suppliers within a single product or a single tier of a product if there was a need to. Currently [REDACTED].
17. Tesco said that if one of its suppliers for a particular product picked up a new contract with one of its competitors, its relationship would not change so long as the supplier's level of focus and category support for Tesco did not change.
18. Tesco believed that if suppliers could offer a range of CSP products this offered them a scale benefit, and reduced the direct and indirect costs to Tesco. However, Tesco said it would be keen to work with the relevant supplier in their expertise area.

Existing competition in the supply of CSP products

19. Tesco said that within the last two years, Pork Farms and Kerry had not competed on its own-label products. [REDACTED].
20. [REDACTED].
21. Pork Farms had contacted Tesco about supplying some Melton Mowbray pork pies. However, it had a long-standing relationship with Samworth, [REDACTED].
22. Tesco said that Kerry was very good at customer relations. It brought a lot of data insight, and had a strong customer team. Kerry also had strength within its sites, was competitive and always willing to work with Tesco. Tesco said it saw Kerry as a supplier of its standard and everyday value products. [REDACTED].
23. [REDACTED].
24. Tesco said the only own-label suppliers who could meet Tesco's requirements at the moment were [REDACTED]. Tesco said it would like to work with [REDACTED], but it believed it had an exclusivity agreement with [REDACTED], so it was not in a position to supply Tesco.
25. Regarding scotch eggs, Tesco said that within the last 12 months, Tulip had been very much at the forefront of offering Tesco innovation. [REDACTED].

26. Tesco said that it did not see the merger reducing its choice of suppliers.

Capacity expansion and entry

27. Tesco said that there was always the option of new suppliers entering the market, or wanting to invest or build new factories, although Tesco was not aware that anyone had plans to enter the CSP market. The only barrier a new entrant would face was ensuring that it had the correct standards within its factories. Tesco said that it would be happy to encourage new entry.

Category management

28. With regards to a category management function, Tesco said that it required its suppliers to provide insight and consult on the relevant market data, although how much depended on scale. However, this was not supplier-led and the decision on what should happen to the category lay with Tesco.

29. Tesco said that it was currently going through a range rationalisation process for CSP products that it believed was a more customer-friendly approach, whilst also benefitting suppliers.

Effects of the acquisition

30. Tesco said that so far the acquisition had been good for it. [✂].

31. Tesco said that it did not see any harm to consumers as a consequence of the merger, nor did it see any negative impact on prices, quality of service, or innovation.

32. [✂].