

POUNDLAND/99P STORES MERGER INQUIRY

Summary of hearing with B&M Stores on 24 June 2015

Background

1. B&M European Value Retail SA (B&M) is a discount retailer with stores predominantly located in northern regions of the UK. B&M said it had plans to expand further, by continuing to open stores in the South of England and areas north of Birmingham where it considered it was currently under-represented.
2. B&M told us that it sold a broad spectrum of products at prices ranging from 20p to £300. B&M said that it considered itself to operate an unusual model, with a very diversified product range. It said that it competed with the category specialist or major retailer in each of the product ranges it offered. For example, its DIY products would compete with those of other DIY retailers.
3. B&M said that its stores' average size was currently approximately 18,500 ft.² but for stores opened in the past two years and for future store openings this would be closer to 20,000 ft.² Due to the large size of its stores, the vast majority of these were located outside of town centres where there were few premises of the desired size available.
4. B&M operated a low cost model which meant its stores were fairly basic in nature and it would only stock 'best-sellers' in the product ranges it offered. Last year (FY March 2014) B&M's turnover was £1.27 billion, an increase from the turnover of the previous year. B&M said that its revenues were increasing by around 20% per year. It said that, for the 12 months to the end of March 2015, its like-for-like sales were up 4.4%.
5. B&M had previously considered buying 99p Stores, and said that it could have comfortably financed the purchase from its cash flow. It said that it would not consider growing a single-price point (SPP) brand organically. B&M thought that for SPP retailing to work, scale was needed, and that insufficient sites were currently available to achieve that scale quickly.

B&M's offering

6. B&M said that its split of sales between branded and own-label was about 50/50. This was dependent on product category and there were some categories where B&M stocked entirely branded products. This would not be the case for categories where there were certain dominant brands that consumers insisted upon purchasing. For those categories where there were no such dominant brands B&M had a tendency to stock more of its own-label products.
7. B&M said that identification of its product range was decided by the relevant buyer (for example, it had specialist buyers for toys, soft furnishings and stationery), based on which lines would generate the highest sales. B&M said that, generally, the same range of products was available across all stores, though some larger goods were not sold in smaller stores. All of its product selection and pricing was done centrally and prices for every product range were the same in all of its stores around the country, and on the company's website (although a minority of its products were not marketed online). B&M said that it did not offer promotions that were specific to certain local areas.
8. B&M carried out performance assessments for each store and each department, with departmental performance measured on a weekly basis. Store-level performance was assessed on the basis of three main KPIs: (i) how the store's sales compared with those for the same week in the previous year; (ii) the store's wage percentage (ie staff costs as a percentage of store revenues [x]); and shrinkage due to theft or loss from the store's inventory. All three of these KPIs affected the store manager's annual bonus.
9. B&M said that it would be difficult to adjust pricing, pack size or range locally to each store, and that such changes would make it more difficult for customers to ascertain if they were getting good value for money. Suppliers would charge more for such customisations and this would negatively affect B&M's profitability. B&M wanted to stock the same products as those sold by the major retailers.

Competitors and competitive constraints

10. B&M said that approximately 10% of its products retailed at the 99p/£1 price point but that it was actively moving away from this price point as it was better executed by SPP retailers. B&M said that SPP retailers had a huge advantage over retailers such as itself because customers already knew the price of products before entering. It said that it was part of the shopping mission for certain customers to buy items for £1. SPP retailers tended to be

located in high street and town centre locations which made them more convenient locations for £1 shoppers.

11. B&M felt that its £1 product ranges could get 'lost' among the rest of its range and that, as it offered so many fewer products at £1 than SPP retailers, its offer at this price point was not credible in comparison. B&M said that its products sold at prices lower than £1 offered a point of difference from SPP retailers and allowed customers to purchase single units – for example, a single bar of soap for 59p, or a single can of coke.
12. B&M had not seen any evidence of Poundland or 99p Stores reacting to any action it had taken and that their ability to do so was limited by their commitment to a single price point. B&M said that as both Poundland and 99p Stores had on several occasions opened new stores next door to a B&M store, in both high street and retail park locations, this suggested that they did not see B&M as a competitor. B&M did not consider the presence of other discount retailers in an area when deciding whether or not to open up a new store.
13. B&M considered supermarkets' larger stores [] as variety retailers that had a very similar offering to B&M. It felt that Aldi and Lidl were also competitors but only on its food and drink product offerings, which made up about 30% of B&M's sales. Where they sold the same product as B&M, B&M would try to ensure it matched their price.
14. B&M did not envisage any new entrants of large scale into discount retail, given the lack of real estate of the right size. B&M did think retailers such as itself, Home Bargains and Poundland would continue to grow as they had successful and profitable models and the financial resources to do so.

Customer behaviour

15. B&M thought that part of the attraction of SPP retailers was the simplicity of their pricing message. It was sometimes unclear why its products were occasionally overlooked by customers for those of SPP retailers, despite offering better value. B&M felt that customers were more inclined to choose a particular shop or item based on absolute price as opposed to a price per unit basis. B&M pointed out that the popularity of SPP retailers was not confined to the UK but had proved a successful format in the USA and other European countries.
16. B&M thought that customers were willing to travel the equivalent of a 10-minute drive to shop at its out-of-town stores. For its town centre stores the catchment areas were equivalent to that of the town, or if in a large city, that of the high street or district. It felt that customers would not travel out of their

way to achieve the level of savings that B&M could offer, potentially up to 20% versus competitors.

17. B&M believed that consumers increasingly prioritised convenience, in terms of the speed of transaction, due to their busy lives, and that the success of many VGM retailers was evidence of this. Desire for convenience could co-exist with wanting value for money. The most important aspect of the customer experience was queuing time at the end of the transaction, and B&M tried to keep this to a minimum, ideally no longer than 3 minutes.
18. Based on its observations rather than specific research, B&M felt that customers visited its stores either to see what bargains were available, because they had an open mind about B&M's offering, or because they needed a specific product and were aware that B&M stocked it. B&M thought that its customers tended to be those who were attracted to bargains when buying shopping, either through necessity or because they simply enjoyed finding a bargain. B&M said that the average spend per customer in its larger stores was around £12.

The transaction and potential effects of the merger

19. B&M stated that it did not consider itself as a direct competitor of SPP retailers. It would open a store regardless of the existence of nearby SPP retailers and this was not a factor in the decision-making process of opening a new store.
20. B&M had no issues with the anticipated merger between Poundland & 99p Stores.

Entry and expansion

21. B&M felt that, in relation to SPP retailers, the main issues for companies wishing to expand or enter were: finding the physical land space for stores – particularly in the South East; currency movements and their consequential effect on the cost prices of products; and inflationary pressures which could make the SPP unviable. B&M felt that the latter issue was not prevalent at the present time but could become more so in the future.
22. B&M said that the availability of town centre real estate meant it would be difficult for new entrants to acquire suitable or sufficient premises. B&M felt that there were plenty of vacant units but these spaces were, more often than not, in failed town centres. B&M said that for discount and SPP retailers, size was imperative. In its view, suitable sites would have to be upwards of 4,000 ft² in size.