

## **POUNDLAND / 99P STORES MERGER INQUIRY**

### **Summary of hearing with Poundworld on 29 June 2015**

#### **Background**

1. Poundworld was a single-price point (SPP) retailer. It had had a UK high street presence since the 1980s, but had operated its current Poundworld Retail model since 2004, by which stage it had 25 to 30 stores. Poundworld had grown steadily since then, with its most significant growth taking part in the past three to four years, during which time it had opened between 30 and 40 stores per year. Poundworld currently had around 290 stores and hoped to have over [REDACTED] by Christmas 2015.
2. Poundworld had been looking for external investment for some time, and in May 2015 was acquired by the private equity firm TPG. Poundworld had not been seeking investment as a direct response to Poundland's stock market flotation, but instead had wanted to keep pace with its competitors more generally and facilitate the company's continued growth. [REDACTED].
3. Poundworld said that the backing of a private equity investor would help it to acquire new properties in good locations and give it [REDACTED].
4. Poundworld said that its main competitive advantages were: (a) the value it offered to customers across range of product categories; (b) its consistent use of the £1 price point, which it felt was attractive to customers seeking price reassurance and to spend a fixed amount; and (c) its store locations, which it said were mainly in the high streets or neighbourhood shopping areas preferred by its customer base.
5. Poundworld said that the way in which it competed with Poundland and 99p Stores was on the basis of the products that it was able to source. It felt that compared to Poundland, it had [REDACTED].
6. Poundworld thought the fact that it had more stores in retail parks in comparison to competitors was a result of its earlier expansion into these types of location. Poundworld said that customers tended to spend more per visit at its retail park versus high street locations, as the majority travelled by car to these locations.

7. Poundworld said that most retail sectors tended initially to be dominated by branded goods, but that over time, as own-brands gained credibility, more of these were introduced. It said that the SPP sector was part-way through that evolution, and that Poundworld now had well-developed own-label brands in some categories such as seasonal gardening and party supplies.
8. Poundworld said that the proportion of sales coming from particular product categories and the amount of space allocated to them in its stores would change over time. It did not think there had been a major strategic change in product offerings, or that such a change would occur in future.
9. Poundworld said that its turnover growth was driven by both increasing like-for-like sales and new store openings, but that the vast majority was attributable to new store openings.
10. Poundworld said that it had recently re-launched its website, previously an information-only site, as 'Poundworld Plus', now a trading platform for online shopping. It said that at present, given the low price point of its products and typically small customer basket size, [REDACTED]. It said that it was important to gain experience in this channel as it would become increasingly relevant in future. One objective of the website was to give Poundworld flexibility to offer interesting, relevant products priced above £1.
11. Poundworld said that the majority of its Bargain Buys store openings have been opportunity-driven, and that some of these traded in the same town, shopping centre or store as Poundworld. [REDACTED]. Poundworld said its Bargain Buys stores occupied larger sites, between 10,000 to 15,000 square feet in size, that would be too large for the Poundworld format. It said its experience had shown the two different formats could largely co-exist side by side without problems.

## **The transaction and effects of the merger**

12. [REDACTED]
13. [REDACTED]
14. [REDACTED]
15. Poundworld said [REDACTED] its current strategy was to expand the business organically, [REDACTED]. It felt that as there were not that many players in the SPP sector on a national scale, [REDACTED].
16. Poundworld said that it was impossible for it to speculate on what would happen to 99p Stores if the transaction did not go ahead as it had no visibility

of its strategy as an independent company. It said that its broad assumption would be that 99p Stores would remain as a competitor and would continue to operate as it had in the past.

17. Poundworld said that, [✂].

18. [✂]

19. [✂]

### **Poundworld's offering**

20. Poundworld said that parameters such as product range, store layouts, pricing, point of sale and operating guidelines, were set centrally. [✂]

21. Poundworld said that [✂]

22. Poundworld said that it deliberately stocked the same range at all of its stores, but that the nature of the buying process in the sector meant that a significant segment of its range was not constant. It said that some of its products were available year round and were bought on a regular basis, while others were only purchased on an occasional basis or in limited quantities, such as special pack sizes. Poundworld said that there may not be large enough quantities of products to go to all of its stores or that some may sell out faster than others. This would lead to significant differences in the precise stock available at a given point in time.

23. Poundworld thought retailers tried to make their business as simple as possible. It said that as businesses became larger, their ability to have variations in range and cost effectiveness increased. Poundworld said that its current scale meant it should continue to keep the business model as simple as possible. Poundworld would need to be a substantially bigger company in order to create an incentive for it to vary its range locally.

24. Poundworld said that, in theory, it would be desirable to tailor the range of products offered in each store to local preferences, and this would be beneficial for both the business and customers. [✂]

25. [✂] It felt the constraint on VGM retailers at the moment was the competitive dynamic in the sector. Poundworld said that as it is a SPP retailer it did not need to check the prices of all its competitors, as most other retailers would, but that it did need to ensure the comparative value it offered had not been degraded because a competitor had increased the pack size of a product.

26. Poundworld said that most of the volume discounts available with large suppliers [✂].
27. Poundworld said that the size of most fast moving consumer goods (FMCG) had decreased over time and that suppliers were constantly changing the pack sizes of their products in response to cost price inflation, in order to achieve particular retail price points. [✂]
28. Poundworld said it was difficult to gauge the effect of temporary changes in pack sizes on sales, as customers often bought different products that offered better value when available. It felt that permanent reductions in pack size or a permanent removal of value would prompt customers to question whether they could get better value from another retailer. [✂]
29. Poundworld said that it closely monitored its stores on a weekly and monthly basis in terms of sales and controllable costs. [✂]
30. Poundworld said that store performance would be assessed in the context of external factors – which could include the opening of a competitor’s store nearby. [✂] It said that the greatest impact on revenue was always seen in the first five to six weeks following an opening.

## **Competition**

31. Poundland said that, when assessing a new location or an existing store that is likely to be impacted by a new opening, its focus was on other SPP retailers. It also took account of other retailers, including Aldi, Lidl and other supermarkets and said that different types of retailers had different positive and negative effects.
32. [✂] Poundworld said the actual impact would vary due to a number of factors, including the size of the store relative to its store and the exact location within the town. These factors would also affect how long the impact continued. Poundworld thought that it competed with Poundland and 99p Stores across its entire range. As part of its periodic review of product ranges, it monitored Poundland’s and 99p Stores’ ranges, as well as those of other competitors. Poundland said its primary focus would be to ensure that it beat Poundland on quality and matched it on price.
33. Poundworld said that, after Poundland and 99p Stores, [✂]
34. [✂] It felt this was partly due to increased footfall and partly because these retailers provided a direct comparator on price, which highlighted to customers Poundworld’s better value. Poundland said that although supermarkets may from time to time offer better value products than it,

particularly during short-term promotions, its objective was to offer the best value across the whole of its range.

## **Entry and expansion**

35. Poundworld said that, although there were currently a large number of vacant stores, on most high streets, [X].
36. Poundworld said that SPP retailers would want to acquire a store that was of an equivalent size and location to a competitor and as a result, in those locations where either Poundland or 99p had opened after one another, they would ordinarily have a similar size store in a similar location.