



Freshfields Bruckhaus Deringer

**ANTICIPATED ACQUISITION OF 99P STORES LIMITED BY
POUNDLAND GROUP PLC**

RESPONSE TO PHASE II STATEMENT OF ISSUES

9 JULY 2015



POUNDLAND GROUP PLC

Response to the CMA's Statement of Issues

This document is Poundland Group plc's (*Poundland*) response to the UK Competition and Markets Authority's (*CMA*) statement of issues of 25 June (*Statement of Issues*) regarding Poundland's proposed acquisition of 99p Stores Ltd (*99p Stores*) (the *Transaction*). Please note that this document contains Poundland confidential information and should not be shared with third parties absent Poundland's express prior written consent.

1. Executive Summary

- 1.1 Poundland welcomes the opportunity to provide the CMA with its input on the CMA's Statement of Issues.
- 1.2 Poundland believes that the evidence strongly supports the view that this transaction does not pose any risk to competition. On the contrary, Poundland considers that the merger will be pro-competitive – bringing a superior proposition to 99p Stores' customers, and further enhancing competition along the High Street.
- 1.3 In particular, the evidence shows that:
 - (a) Poundland competes in a competitive marketplace everywhere it operates. Poundland competes all along the High Street: all of the products that Poundland sells are either available at a supermarket, at a limited assortment discounter (*LAD*), at another value general merchandiser (*VGM*), at a specialist retailer or at an independent discounter. Customers are value conscious – they want more for less, can easily switch retailers and do not display any 'fascia loyalty' in their quest for value.
 - (b) There is no variation of the offer across the Poundland estate. Every store offers the same products across the same lay-out, irrespective of whether Poundland faces a large number of competitors or not. The Transaction will not change this approach. Poundland needs to continue to operate this simple business model to keep costs low and value high for customers, given the high level of competition it faces – and will continue to face – everywhere.
 - (c) Barriers to entry and expansion are extremely low. All of Poundland's principal competitors – supermarkets, LADs and VGMs alike – have announced significant expansion plans across the country. Indeed, since the CMA's Phase I decision, at least 70 new competitor stores have opened. This entry and expansion is due to the widespread availability of suitable vacancies across the country and the absence of any other material barriers.
 - (d) In this changing landscape, the only way to ensure that customers return is by constantly providing value. The Transaction will allow Poundland to improve value for customers by bringing its superior offer to over 250 new stores and millions of consumers across the

country. The Transaction will also allow the merged entity to reduce its buying costs and pass these on to customers. Both these effects will further drive competition on the High Street.

- (e) [§§]. By contrast the merged entity will be a more effective competitor to some of Britain's largest retailers, to the ultimate benefit of consumers.
- 1.4 This submission provides an overview of the extensive evidence that has been provided to the CMA – both at Phase I and II – regarding Poundland's commercial proposition and the dynamics of the intense competition Poundland faces and will continue to face post-Transaction.¹ We are confident that the CMA will come to the conclusion from this evidence that this merger does not raise any competition concerns.

¹ A complete overview of all the evidence Poundland has submitted under topic headings is provided at **Annex 1**.

2. Product market definition

- 2.1 Poundland competes all along the High Street.² It sells the same products to the same people as a broad range of retailers.
- 2.2 In particular, Poundland competes head-to-head with the large national supermarket chains. This competition has been demonstrated by Poundland's internal documents, including business plans, strategy documents, routine benchmarking reports, econometric evidence, product overlap data and survey evidence. External documents, such as market analyst reports, press articles and, notably, statements from the supermarkets themselves, further confirm the broad competitive constraint Poundland faces.
- 2.3 More importantly, this evidence reflects the structural shift in UK retailing. Consumers from all backgrounds have adopted new shopping patterns and are much more value-conscious than was previously the case. This explains the large investments the Big Four and others are making in price cuts. It explains why the LADs are expanding their offering and attracting more consumers than ever before to their stores. And it explains the VGMs' explosive growth over the past decade and their projected expansion over the next few years.
- 2.4 The Statement of Issues notes that the CMA is investigating the relevant product and geographic market applicable in the present case and, in particular, whether the Parties' arguments that they face a broad competitive set and compete nationally is supported by the evidence.³
- 2.5 The evidence shows that the parties face competition from a wide range of competitors, including other VGMs, supermarkets, category competitors, local independents and others. This evidence is unambiguous and overwhelming, and is found in all of the following data;
- (a) product overlap data;
 - (b) benchmarking undertaken by Poundland;
 - (c) Poundland's internal documents;
 - (d) commercial evidence on the supermarkets' offer;
 - (e) competitor and expert third party commentary;
 - (f) survey evidence; and
 - (g) econometric evidence.

Product overlap evidence

- 2.6 The CMA's Phase I Decision concludes that "*VGMs [i.e. multi-price VGMs] appear to sell a similar range of products to SPP [i.e. single price point]*

² As in the Parties' initial submission dated 29 May 2015 in response to the CMA's Phase I decision (the **Initial Submission**), the concept of the "High Street" is used figuratively to describe the locus of competition between the parties and their competitors. It does not exclude non-High Street locations such as stores in retail parks.

³ Statement of Issues, ¶¶ 9-13.

retailers" and as such multi-price VGMs operate in the same market as Poundland. The Parties agree that they vigorously compete with both single- and multi-price point retailers.

- 2.7 The evidence also clearly demonstrates that the same is true of the competition between the Parties and the supermarkets. The evidence before the CMA shows that the Parties' competitive set includes - at least - limited assortment retailers such as Aldi, Lidl and Netto, national supermarkets including Tesco and Asda other members of the Big Four and other national supermarkets and category specialists (e.g. Boots, WH Smith, Superdrug and Card Factory).
- 2.8 That the Parties are part of the same market as supermarkets and other High Street retailers is evidenced by the degree of overlap between their product offerings. While – at one end of the spectrum – High Street category specialists obviously offer only a part of the Poundland/99p Stores offering, the overlap with supermarkets is near complete.
- 2.9 **Poundland's FMCG offer.** The core of the Poundland offering is exactly the same as that of the supermarkets: FMCG. In 2013, [☒] of Poundland's sales were FMCG lines.
- 2.10 The figure below shows the scope of the Poundland offering. It will be clear even from these category descriptions that the overlap with supermarkets is extensive.

Figure 1: Poundland's product offering⁴

[☒]

- 2.11 This dynamic is further demonstrated by the fact that Poundland's top [☒] selling products in 2013 were all FMCG products, each of which is widely available in the supermarkets. These products are shown in the graphic below:

Figure 2: Poundland's top selling products (2013)⁵

[☒]

- 2.12 **The overlap between Poundland's offer and that of the supermarkets.** The Parties have also provided detailed evidence of the overlap between Poundland and specific retailers. Figure 3 below shows the overlap between the Poundland offering for certain selected products and the offer available in the UK's leading discounter, Asda, for both FMCG and non-FMCG products.

Figure 3: Comparison of Poundland top-selling Health and Beauty lines with Asda products⁶

[☒]

⁴ See presentation made by Poundland at CMA Issues Meeting, 13 March 2015 (the *Issues Meeting Presentation*), slide 17. Source: Poundland internal benchmarking data

⁵ See Issues Meeting Presentation, slide 18. Source: Poundland internal data

⁶ See Poundland's response dated 19 January 2015 to the CMA's RFI on 14 January 2015 2.E.1. Source: Poundland internal benchmarking data.

- 2.13 Poundland notes that the CMA has requested information on sales for different product classes by category as part of its own benchmarking exercise.⁷ In particular, the CMA asked Poundland to identify the top-selling product class in each product category based on FY15 sales value. The CMA asked for sales details for product classes representing at least 10% of category sales for each product category. Such an exercise would involve comparison of price, pack size, range and own label products within each class and category. Poundland is confident that this exercise will demonstrate the extent of the overlap among these product categories.

Benchmarking evidence

- 2.14 The CMA and its predecessors have considered that evidence that a party benchmarks its offering against another market participant is good evidence that they are likely to be in competition with one another.⁸

'Formal' benchmarking documents

- 2.15 **Routine competitive intelligence gathering:** Poundland has provided the CMA with nearly 700 items of photographic evidence collected as part of its routine benchmarking and competitive intelligence gathering demonstrating just how closely the supermarkets are targeting the Parties' offering.⁹ A sample are set out at **Annex 4**.

- 2.16 **Routine price benchmarking:** Poundland routinely benchmarks against the main supermarkets. Poundland provided a large set of its benchmarking spreadsheets at Annex 16 of its the Parties' merger notice dated 6 February 2015 (the **Merger Notice**)

- 2.17 **Poundland Trading Discussion Document, November 2014.** Poundland provided the CMA with a copy of a document prepared for [§]. The purpose of this document was to provide an overview of the marketplace and Poundland's performance.

- 2.18 With respect to the question as to how Poundland measures its relative competitiveness, the document explains: [§].¹⁰

- 2.19 The document goes on to explain how Poundland measures its FMCG offering against that of the Big Four: [§].¹¹

⁷ [§].

⁸ In *NBTY/Julian Graves* the Competition Commission relied extensively on the Parties benchmarking data, including in assessing the competitive set, for example the Competition Commission notes “*H&B had been monitoring the prices of NSF [nuts, seeds and dried fruit] at the supermarkets (...) for many years.*” (...) “*We found that H&B monitored the prices of JG and some of the supermarkets, suggesting that it perceived them to be competitors*” (paras. 5.7-5.8, 5.56) – see Initial Submission, p.29.

⁹ See Poundland's response dated 20 January 2015 to question 1.A.3 of the CMA's 14 January 2015 request for information.

¹⁰ See Merger Notice, Annex 18, p.37.

¹¹ *Ibid.*

2.20 This analysis is graphically represented in the figure below.

Figure 4: Internal Poundland benchmarking vs. supermarket offering (SKU level comparison)¹²

[☒]

2.21 This document contains multiple additional examples of the detailed benchmarking routinely undertaken by Poundland that compares its offering against that of the supermarkets.

2.22 For completeness, the CMA's Phase I decision notes that Poundland does indeed benchmark against supermarkets, but fails to give this appropriate significance. The reason for this according to the Phase I decision is that Poundland's internal benchmarking is alleged to disclose a price differential between Poundland and major supermarkets which the CMA considers (against the Phase I test) indicates that they do not compete strongly against one another (and so should not be considered to be part of the same market).

2.23 With respect, this is wrong. This is the case for a number of reasons:

- (a) *First*, it is difficult to understand why Poundland would go to the trouble and expense of benchmarking against the supermarkets if it did not consider that they operated as a competitive constraint on its business.
- (b) *Second*, as Poundland has previously explained to the CMA, Poundland competes hard to ensure that it provides greater value than the supermarkets. This is because, unlike the supermarkets, it is not a destination store. [☒].
- (c) *Third*, independent third party analysis indicates that the supermarkets' repositioning meant that the position is nowadays much more mixed than the CMA's phase 1 conclusions suggest. For example:
 - (i) A recent report by AB Bernstein makes a specific reference to Poundland's pricing position in the UK food retail sector and notes that: "*Across all branded products where Tesco and Poundland match, the price gap in the last year has come down from 14% (at Poundland) to 4% cheaper. If you exclude the wonky "Nestle Wonka runts Theatre box" from the range tail, and focus on the faster selling branded items, Poundland is already more expensive than most other traditional supermarkets*" (emphasis added).¹³
 - (ii) In the same vein, Jefferies also analysed how Poundland's prices compare against the Big Four supermarkets and found that: "Asda matched Poundland's £1 price point on 19 of the 55 products. Asda was cheaper on 12 items, and more expensive

¹² *Ibid.*, p.40. Source: Poundland internal benchmarking data

¹³ AB Bernstein, "UK Food Retail: Bernstein Price Idx Supports Inflection In Inflation, No Weakening In Intensity Of Targeted Battles", 24 June 2015. The AB Bernstein note is attached at Annex 6.

on the remaining 24. Morrison and Tesco both matched the £1 price point on 13 products (with several others being cheaper), suggesting that the discounter's £1 (or 99p) price point had not gone unnoticed, since many of the £1 products were on offer.¹⁴

Poundland is currently assessing the most recent commentator evidence in this respect and is committed to ensuring the strength of its value proposition in the face of this aggressive competition. Other evidence makes clear how hard it is working to maintain the value of its offer, with a recent Credit Suisse report indicating that it has maintained good value versus supermarkets (presumably on a different basket from that reviewed by Bernstein).¹⁵ This is what one would expect to see in a competitive marketplace, with providers reacting to one another to make their offer attractive to customers. It is clear that the supermarkets' recent price reductions have had an effect on Poundland's performance, with a slowdown in like for like sales evident in recent months.

- (d) *Finally*, Poundland is not the only VGM that benchmarks its offering against that of the supermarkets. B&M has publicly reported on its internal benchmarking against the Big Four.¹⁶

Business plans

- 2.24 **Poundland's 2013/14 business plan.** Poundland's business plans, including those pre-dating the negotiations with 99p Stores, clearly identify the competitive threat from supermarkets. Poundland's 2013/14 business plan states that: [⊗].¹⁷
- 2.25 **Poundland's 2014/15 business plan.** Poundland again benchmarks against the supermarkets on such a regular basis because it considers them as close competitors. It does so for a number of reasons, the most important of which is to ensure that it maintains a value differential vis-à-vis the supermarkets. The importance of this differential is widely noted in Poundland's internal documentation, with its 2015 business plan noting the risk that [⊗].¹⁸

Category reviews

- 2.26 Poundland has supplied to the CMA its recent reviews of categories of products in its stores. Those category reviews are very clear evidence showing

¹⁴ Jefferies, "Poundland: Forget About the Price Tag; Initiating with an Underperform", 23 July 2014. This Jefferies report is attached at **Annex 7**.

¹⁵ Credit Suisse, "B&M and Poundland retain their price gap", 2 July 2015. This Credit Suisse is attached at **Annex 8**.

¹⁶ Deutsche Bank, "Big brands, big expansion plans", 23 July 2014, Figure 46: B&M's own price benchmarking against Tesco, Morrisons, Asda and Sainsbury's. The Deutsche Bank report is attached at **Annex 9**.

¹⁷ First Day Letter Response, Q9.

¹⁸ See Merger Notice, Annex 5, p. 29.

Poundland considers addressing competition from supermarkets as a central part of its competitive strategy.

- 2.27 **Biscuits and cakes range review.** This range review document is very clear on the constraint from supermarkets.¹⁹ For example, slide 9 states that [☒].²⁰
- 2.28 The document goes on to analyse of how different parties' share of certain product categories has changed over time. An example from Slide 26 is set out below. It is clear that when this document was prepared – a mere three months ago – that national supermarket chains are considered by Poundland as their key competitors in this product range.

Figure 5: Slide 26 from “cake and biscuits” category review slides²¹

[☒]

- 2.29 **Confectionery.** This is a key product category for the Parties. Once again, the internal Poundland range review shows that Poundland is focused on competing with very wide range of competitors for the top branded products in this category (i.e. Cadbury, Nestle). The table below is taken from the range review document.

Figure 6: Slide 11 from “confectionery” category review slides²²

[☒]

- 2.30 **Dental products.** Poundland's range review for dental products reviews [☒]. In establishing these action items Poundland identifies its main competitors in dental as “*Tesco, Asda, Morrison's, Sainsburys Boots, Superdrug, Bodycare, Home Bargains, Wilkinson's, Savers, Poundstretcher*”. The figure below is an extract from the Dental range review document.

Figure 7: Competitor overview for dental products²³

[☒]

- 2.31 **Valentine's Day products.** In the same vein, the range review for Valentine's Day products summarises the competition at Asda, Tesco, Sainsbury's, Marks & Spencer, Poundworld, Card Factory, Clintons, Paperchase, WHSmith and an independent gift shop. This document also underlines the expansion of supermarkets into the £1 segment, with Asda and Sainsbury's both noted as offering plastic champagne flutes at the £1 price point. The figure below is an extract from the Valentine's range review document.

¹⁹ See Poundland's response to Part Two of the CMA's Market Questionnaire (the ***MQ Response***) dated 5 June 2015, Annex 2C.

²⁰ *Ibid.*, Annex 2C, slide 16.

²¹ *Ibid.*, Annex 2C. Source: Poundland internal benchmarking data.

²² See MQ Response, 5 June 2015, Annex 2D. Source: Nielsen, Scan Track Value Sales MAT to 13/06/2014.

²³ See MQ Response, 12 June 2015, Annex 8A. Source Poundland internal benchmarking data.

Figure 8: Overview of Asda offering for Valentine's Day products²⁴

[§§]

- 2.32 **Stationery.** Finally, Poundland's stationery review includes comparisons of Poundland's value proposition against competitors' product offering on specific stationery lines, for example:

- (a) 30 pack pencils with an eraser: [§§]; and
- (b) 3 Small, 5 Medium and 7 Large Bubble Envelopes: [§§].²⁵

Email correspondence between buyers and brand representatives

- 2.33 **Health and beauty.** Poundland has also been able to source correspondence in a category which has not undergone such a review but nevertheless demonstrates a similar degree of competition. Correspondence between Poundland's buyers for the health and beauty category and representatives from [§§]²⁶ emphasises the intense pressure the supermarkets place on Poundland.

- (a) [§§].
- (b) [§§].²⁷
- (c) [§§].

Competitor and expert third party commentary

- 2.34 Market commentators are very clear that they consider that Poundland is part of the same competitive set as major supermarkets (commonly as well as a range of other retailers, including LADs). A small selection of this commentary is set out below:

- (a) Highly respected grocery analyst AB Bernstein made numerous references to Poundland in its 24 June 2015 report on UK Food Retail. For example it notes: "*across all branded products where Tesco and Poundland match, the price gap in the last year had some down from 14% cheaper (at Poundland) to 4% cheaper.*"²⁸
- (b) The Chart on page 5 of the Bernstein report notes "*Aldi & Poundland price leadership materially reduced*".²⁹
- (c) Shore Capital noted in April 2015 that "*the discount channel is extremely dynamic and competitive and that both the general*

²⁴ *Ibid.*, Annex 8C. Source: Poundland internal data.

²⁵ *Ibid.*, Annex 8B (emphasis added).

²⁶ [§§].

²⁷ See MQ Response, 5 June 2015, Annex 5.

²⁸ See AB Bernstein Report, p.3 attached at **Annex 6**.

²⁹ The diagrams on pp. 19, 21 and 22 of the AB Bernstein report all show Poundland prices being compared to those of Aldi, Ocado, Waitrose, Sainsbury's, Tesco, Morrisons and Asda.

merchandise and fast moving consumer goods elements of the market in the UK have extensive and, if anything, growing choice with the expansion and evolution of grocery limited assortment retailers (LADs) such as Aldi, Lidl and Netto (...) and general merchandise high street value retailers [...] Additionally, there are major health & beauty (H&B) specialists such as Savers and Superdrug in the discount space and across all these categories the value based supermarkets (Asda [...], Tesco [...] and Wm. Morrison Supermarkets [...]), whose estates eclipse that of Poundland and 99p individually and collectively”;³⁰ and

- (d) During the same period, Jefferies noted that: “*Poundland’s 4Q sales growth slowed to 6.5% vs our 8.7% est. The late opening of new stores was a factor (6 in the final week) whilst LFL sales fell c.0.7% due to tough comps, supermarket competition and lower high street footfall*” (emphasis added).³¹
 - (e) Jefferies also considers that “*Poundland competes with two main groups of retailers: the main-stream grocers and the other value retail discounters*” and “[w]hen comparing Poundland to the supermarkets and Ocado across 55 products (in Grocery, Health & Beauty, Baby and Household) we found that Poundland does offer a strong value proposition.”³²
- 2.35 Furthermore, supermarket and other competing retailers are very clear even in their public statements about competition between supermarkets, on the one hand, and Poundland and other VGMs on the other. For example:
- (a) Morrisons was acutely aware of the threat of Poundland, as can be seen from this extract from an investor call in 2012: “*it’s not just ALDI, its’ Poundland, it’s B&M. They’re all out there and they offer something pretty compelling to the consumer, and we have to be on them like a hawk, and we really watching them very carefully at the moment... We had our ... the majority of our buying team was out in them again yesterday, as they were last week*” (emphasis added).³³
 - (b) The CEO of NISA stated in an FT interview on 25 June 2015 that it was “*squeezed on both sides.*” The article noting “*The large supermarket chains see convenience as a growth area while discounters such as Poundland were also eating into market share.*”³⁴
 - (c) Wilko blamed poor results on these factors “*Wilko blamed its difficulties on price cuts by supermarkets and by discount chains such*

³⁰ See First Day Letter Response, Annex 11, SC Broker Note (15-04-15).

³¹ *Ibid*, Annex 11, Jefferies Broker Note (14-04-15).

³² Jefferies, “Poundland: Forget About the Price Tag; Initiating with an Underperform”, 23 July 2014 – see **Annex 7**.

³³ Transcript of WM Morrison Supermarkets Plc Q1 Interim Management Statement Conference Call, 3 May 2012 – see Initial Submission, pp. 9-10.

³⁴ Financial Times, “*NISA squeezed on both sides by grocery price war*”, 25 June 2015.

as Aldi and Lidl. It said: “We have seen the effect of this in those categories where we compete with the grocers such as household cleaning” (emphasis added).³⁵

Commercial evidence demonstrating impact of the supermarkets on the Parties and other VGMs

- 2.36 Poundland has demonstrated the impact of the supermarkets and other VGMs on its offering throughout the CMA process. Indeed, paragraph 2.38(b) above shows that when Poundland perceives that it is no longer able to provide greater value to its customers than the supermarkets, it will seriously consider whether to delist a product.
- 2.37 Independent industry analyses – such as the report prepared by AB Bernstein – also demonstrate the dynamic and reactive nature of the UK retail sector. In particular, one of the key characteristics of this sector is – as demonstrated by this report – the competitive interplay between supermarkets and VGMs. The fact that supermarkets’ repositioning is causing a decline in the price differential with, amongst others, Poundland, shows that the supermarkets can react to the competitive threat posed by the VGMs.
- 2.38 ***Case studies.*** The Merger Notice referred to four specific examples that demonstrate the significant impact the supermarkets can have on Poundland’s sales. These examples (along with two further examples) are summarised below.³⁶
- (a) [⊗].
 - (b) [⊗].³⁷
 - (c) [⊗]³⁸
 - (d) [⊗]³⁹
 - (e) [⊗].
 - (f) [⊗].

Demographic evidence

- 2.39 That the Parties are part of the same market as supermarkets and other High Street retailers is evidenced by the similarity of their customer demographics. The evidence shows that the parties serve the same customers as the broad range of competitors they face along the High Street.
- 2.40 ***Third party reports commissioned by Poundland.*** Third party reports commissioned by Poundland in the ordinary course (i.e. for the purposes of

³⁵ The Times, “[Wilko and out as pirates fail to bring home booty](#)”, 16 June 2015.

³⁶ [⊗].

³⁷ See Merger Notice, Annex 20.

³⁸ [⊗].

³⁹ See Merger Notice, Annex 20.

running its own business, rather than for the purposes of the transaction) show that the demographic of Poundland's customers is identical to that of the UK population.

- 2.41 This is demonstrated by Figure 9 below taken from this research.

Figure 9: Poundland customer demographic vs. national average⁴⁰

[☒]

- 2.42 These data are confirmed by recent third party studies. For example, the recent report by the Grocer/HIM! which shows that ABC1s are increasing using value general merchandisers (**VGMs**): “[A]new report from Him!, which quizzed shoppers at B&M, Home Bargains, 99p Stores, Poundland, Poundstretcher and Wilko, found 57% of UK adults claim to use variety discounters in a typical week. Some 53% are in the AB demographic – a huge increase on 37% a year ago.”
- 2.43 It is further noted that: “*There has been a considerable shift in higher income households using variety discounters, just as we've seen them now using Aldi and Lidl regularly,*” says Him! communications director Katie Littler. “*Any stigma is slowly disappearing and they are becoming just another retailer, albeit trusted for a more limited range of missions and categories*” (emphasis added).⁴¹
- 2.44 This trend is shown in an article in the Independent entitled “*Poundland nation: Britain's middle classes flock to discount chain*” noted: “*The growth is coming from ABC1s*”.⁴² Further articles highlight the growth in ABC1s at Poundland including Telegraph articles entitled “*Cut price cool now means no one's too posh for Poundland*”,⁴³ and “*How Poundland became rather posh*”.⁴⁴
- 2.45 Investment Bank Jefferies undertook its own independent survey which showed that “*nine in 10 UK consumers have shopped in an average of three different value retailers over the past six months. 60% of all UK consumers have shopped at one of Poundland's 528 stores*” (emphasis added). The report goes on to say that “[g]iven that 9 out of 10 consumers have shopped in a discounter it's perhaps not surprising that the age split of a ,discount shopper' is broadly the same as the national population”.⁴⁵

⁴⁰ See Merger Notice, Figure 2 and Issues Meeting Presentation, slide 20. Source: Poundland internal data.

⁴¹ The Grocer, “[Bargains driving younger AB demographic to variety discounters](#)”, 10 April 2015 - see Initial Submission, p.27. This study was cited in a number of other press reports including The Telegraph, “[Worth every penny: why I love Poundland](#)”, 25 April 2015.

⁴² The Independent “[Poundland nation: Britain's middle classes flock to discount chain](#)”, 18 February 2014.

⁴³ The Telegraph, “[Cut-price-cool means no one's too posh for Poundland](#)”, 4 July 2012.

⁴⁴ The Telegraph, “[How Poundland became rather posh](#)”, 13 March 2014.

⁴⁵ Jefferies, “Poundland: Forget About the Price Tag; Initiating with an Underperform”, 23 July 2014 – see Annex 7.

- 2.46 Following the Phase I issues meeting, Poundland submitted a report by Frontier Economics which set out the demographic profile of Poundland's customers across all the different surveys that had been conducted.⁴⁶ The results consistently demonstrated that a material proportion of Poundland's customers were ABC1. Indeed, across all of the different sources, [☒] of respondents were ABC1.
- 2.47 In particular, it is worth highlighting the results of the YouGov Online research from 2013 which showed that [☒] of Poundland customers were in the ABC1 category. The YouGov Online research was based on a nationally representative panel and the results were provided for customers that had shopped at Poundland in the last six months.⁴⁷ Deutsche Bank referenced this survey in a report from July 2014, noting that “[the] use of discounters is widespread amongst UK consumers. The usage is both regular (58% of respondents say they use a discount shop at least once per month) and perhaps more interestingly the usage by age, gender and socio-economic group, is not as skewed as one might think. Within each of these consumer segments consistently over 75% of respondents say they have shopped [at] the discount sector in the past six months”⁴⁸ (emphasis added).
- 2.48 Furthermore, the survey evidence submitted by the Parties at Phase I showed that the Parties' respective customers were visiting other retailers *in the course of the same shopping trip*.⁴⁹ This is consistent with the “top-up” nature of the typical Poundland shopping mission, and also underlines the demographic analysis set out above.

Survey evidence

- 2.49 The Statement of Issues states that the CMA will use the results of the face-to-face survey it has commissioned in Phase II as one of the factors in assessing the relevant market.⁵⁰ The statement of issue further notes that this survey will be conducted in “several local areas”.⁵¹
- 2.50 Poundland has made clear to the CMA its concerns as to the robustness of any conclusions that can be drawn from a survey on this limited scale and on the basis of the questions that are being asked.
- 2.51 Poundland's online survey at Phase I obtained responses from over 60,000 Poundland and 99p Stores customers. The questions were formulated following detailed discussion with the CMA. This survey showed, amongst other things, that the Parties' customers use a wide range of alternative retailers – including supermarkets, other VGMs and specialist retailers –

⁴⁶ See Frontier report on survey information submitted to CMA on 17 March 2015.

⁴⁷ YouGov, “SixthSense Discount/Budget Retailing survey” (27 Sept. 2013 – 02 Oct. 2013) – see Frontier report in e-mail of 17 March (the **17 March submission**)

⁴⁸ Deutsche Bank, “Initiation – In for a Penny”, 23 July 2014. This Deutsche Bank report is attached at **Annex 10**.

⁴⁹ [☒].

⁵⁰ Statement of Issues, ¶12.

⁵¹ *Ibid.*, note 2.

during the same shopping trip to the one where they shopped with one of the Parties. It showed that – for the customers surveyed across the Poundland estate⁵² – [§] is the retailer Poundland customers would divert most of their revenue to. Finally, it showed that for both overlapping Poundland and 99p Stores stores, [§] are the alternatives with the second and third highest revenue diversions respectively and that [§] also ranked highly ([§]) for both Parties.

Econometric evidence

- 2.52 A performance concentration analysis was undertaken on behalf of the Parties by Frontier Economics (the **PCA**) in order to identify the effect of local competition on store performance. Even after controlling for other variables that may affect store performance, e.g. store characteristics, local demographics and regional margin variations, the results showed that Poundland must be constrained by a very broad competitive set.
- 2.53 In summary, the evidence confirms that:
- (a) The presence of 99p Stores has no impact on the margins that Poundland is able to earn. That is, Poundland's margins are *identical* in areas where it does face a 99p Store and in areas where it does not; and
 - (b) Poundland is constrained by a set of competitors that is wider than just national VGM operators, as is evidenced by the fact that Poundland's margins are similarly unaffected by the number of other single and multi-price VGMs operating in a given area. Specifically, the [§] Poundland stores with no VGM competition locally had a gross margin of [§] compared to [§] across the whole Poundland estate. Reducing margin, or any degradation in the offer leads to volume declines as can be seen from the case study on [§] described at paragraph 2.38(a) where higher margins led to lower volumes.
- 2.54 In other words, in local areas where Poundland faces no competition from single price and multi-price VGMs, it is not able to earn a higher margin than in those areas where it faces multiple competitors, including VGMs and supermarkets. Notably, this was also confirmed by the CMA's own analysis which similarly did not find any effect between margins and the level of local competition.
- 2.55 These findings are entirely consistent with Poundland's policy of not flexing its offering locally based on the level of competition.

⁵² Note that Poundland conducted the survey across the entirety of its estate. See Merger Notice, Annex 8.

3. Geographic market definition

- 3.1 As evidenced above, the Parties face a broad competitive set and compete vigorously at a national level.
- 3.2 Neither party varies its offer on a local basis, such that it would seem most appropriate to assess the merger at a national level. We set out the evidence on the absence of local “flex” below in the context of the CMA’s “loss of a current local competitor” theory of harm. The evidence shows that on every material parameter, there is no competitively significant flex in the parties’ model.
- 3.3 Poundland’s business model places a very significant premium on simplicity and consistency, which is key to remaining competitive in such a low margin business. As such, Poundland is unable to adopt and execute anything other than a consistent national policy, with no meaningful local discretion given to store managers. Consistency of product range, details of the offer and store lay-out enables efficient stock and working capital management, simple operational systems and logistical planning – again necessary for the successful operation of a low margin business.
- 3.4 There is no incentive, or ability, for Poundland to deviate from this national policy post-merger (and evidence, including margin data analysis, confirms that Poundland does not currently deviate from its national policy in the [§] areas the CMA’s Phase I decision consider to be “undercompeted”). As previously explained to the CMA, any variation at a local level, would require Poundland to make material further investments [§]. Incurring such additional costs would be very unattractive and represent a major change in Poundland’s business model.⁵³
- 3.5 To the extent that local demand-side factors are nonetheless important to the CMA’s assessment, the parties’ stores are not “destination stores”. This means that their catchment area is primarily driven by the competitive strength of other local stores (regardless of whether these are competing stores). The one mile “rule of thumb” used at Phase I continues to have merit, but likely represents a lower bound. This is especially true for some competitors, such as supermarkets, that have wider catchment areas as the CMA and its predecessor bodies have consistently found. In particular, precedent has shown that large supermarkets constrain convenience store from 10-15 minutes away, even though the competitive constraint posed by a convenience store on another convenience store is limited to a 1 mile radius.⁵⁴
- 3.6 The fact that supermarkets pose an asymmetric constraint on the Parties of this nature is also consistent with the commercial evidence described in para 2.42. We have repeated the analysis carried out on the [§] case studies, restricting the sample of stores observed to those that do not have a supermarket within a

⁵³ Similar reasons were persuasive reasons for adopting a review on a national level in the CMA’s predecessors’ decisions (e.g. *Sports Direct International plc/JJB Sports plc*, Competition Commission, 16 March 2010 and *NBTY Europe Limited/Julian Graves Limited*, Competition Commission, 20 August 2009).

⁵⁴ See for example the Tesco/T&S Stores decision at the OFT.

mile. The results are almost identical to those obtained on the whole sample, as shown in Figure 10 below.

Figure 10: Average decrease in sales from case studies⁵⁵

[☒]

- 3.7 This shows that even the Poundland stores without a supermarket nearby saw their sales starkly affected by supermarket price changes. This is strongly supportive of the asymmetric catchment view of the market.

⁵⁵ See case studies in Merger Notice, Annex 20. Also discussed in Section 2 above.

4. Theories of Harm

- 4.1 The Statement of Issues sets out the three theories of harm the CMA is investigating: (i) whether the Transaction will lead to a loss of a current competitor at a local level; (ii) whether the Transaction will lead to a loss of a current competitor at a national level; and (iii) whether the Transaction will lead to a loss of a potential competitor at the local level.⁵⁶
- 4.2 The evidence shows that each of these three theories of harm cannot be sustained. Rather, for the reasons set out in Section 6 below, the Transaction will lead to an increase in competition among retailers on the High Street.

Counterfactual

- 4.3 As the Parties have explained to the CMA, [§§].
- 4.4 [§§].
- 4.5 [§§]. The combined entity, however, will be able to increase competitive pressure on other retailers to a much greater extent than a 99p Store in that local area is presently able to do, thus increasing the overall level of competition on the High Street.

Theory of harm 1: loss of a current competitor at a local level

- 4.6 The Statement of Issues explains that the concern under this theory of harm is that: “*as a result of the merger, in some (or all) of the areas where the Parties both have stores, Poundland would have the ability to increase prices of its products (including by changing the sizes of product packagings [sic] or modifying the bundles offered for £1), lower the quality of products and/or service, reduce or modify in other ways the range of products offered in those areas, or close stores, because it would face competition from one fewer competitor*”⁵⁷.
- 4.7 This theory of harm is not consistent with the evidence:
- (a) Poundland does not vary its local offering based on the degree of local competition, and there is no reason at all to believe that the transaction will lead it to change its strategy in this respect. The small number of previous trials of local promotions were not successful. Poundland has no incentive to adopt an approach which does not work.
 - (b) Poundland faces competition all along the High Street such that there is no prospect that it could profitably degrade its offer (even absent the threat of new entry which we address below).

Poundland does not vary its local offering in response to local competition

- 4.8 The cornerstone upon which the Poundland proposition is built is the simplicity and consistency of its offering. Customers know that, when they shop at Poundland, all products will be at a single price point: £1.

⁵⁶ Statement of Issues, ¶¶ 19-27.

⁵⁷ Statement of Issues, ¶20.

- 4.9 However, in order to be profitable at this price point, Poundland's focus must be on maximising volumes and keeping costs to a minimum. This demands simplicity in the business model.
- 4.10 There is nothing about the Transaction that will change this approach. The acquisition of the 99p Stores' estate does not make for any sort of "tipping point" where it will suddenly become rational to flex its offering depending on the degree of local competition. This is true for the following reasons:
- (a) Looking only at competition from VGMs, Poundland currently faces no VGM competition within one mile in [§] local areas (approximately [§] of its estate). It currently does nothing differently in these areas relative to the circa [§] of local areas where it does face competition within one mile,⁵⁸ as it has explained to the CMA. The Transaction will create only [§] more areas in this category – i.e. an increase in local areas facing no VGM competition from [§] to [§], i.e. by a mere [§].
 - (b) Another possible way of thinking about the change is to consider those areas that the CMA may consider to be "undercompeted" on a VGM-only market definition. In almost [§] local areas Poundland currently faces two or fewer VGM competitors (again, in these areas it behaves exactly the same and earns the same margins as in all other areas). This equates to approximately [§] of its estate. The merger will create only [§] more such areas – an increase of approximately [§]. So one would have to believe that the acquisition of this small number of "undercompeted" areas would incentivise Poundland fundamentally to change its strategy accordingly, in order to exploit the local competitive conditions.
 - (c) The lack of any "tipping point" set out above is even starker when the Parties' full competitive set is taken into account. For example, considering only VGMs and 'Big 4' supermarkets, the Transaction does not create any additional areas where Poundland would be the only retailer present.
- 4.11 To the extent that the Transaction may create a small number of additional areas with few VGM operators, it is highly likely that future expansion by other VGM operators into these areas will mean that they exist for only a short period of time. In any event, any attempt to deteriorate the competitive offer in specific areas would create profitable opportunities for others and so only hasten the expansion of rivals into those areas.
- 4.12 The same point is equally applicable to competition from Poundland's true competitive set. Given that competition from supermarkets (in particular) is has become much stronger in the past two years (and is expected to become stronger still, according to market commentators), there is no basis for Poundland to choose this moment to flex its offering.

⁵⁸ This is borne out by the fact that Poundland earns the same margin in these areas as it does in areas with competing VGMs.

4.13 Adapting Poundland's offering to the variation in the local competitive landscape in each area would be extremely time consuming, costly and complex. The complexities behind any such decision have been explained in detail to the CMA. In summary:

- (a) The competitive conditions in a given locality are not based simply on counting the number of competing national VGM and supermarket fascia present within a local areas. Thus, without an exhaustive and expensive analysis of the local "on the ground" dynamics in each and every area in which it competes (of which there would be more than [§§] post-merger), any attempt by Poundland to achieve a binary allocation into stores facing less or more competition is going to be an exercise likely to throw up multiple anomalies;
- (b) Similarly, the assessment of less and more competitive areas could not be a "one time" exercise – particularly given the expansion of competitors noted above and explained in detail in Poundland's previous submissions. The categorisation would need to be kept under continuous review or else would lose any potential value;
- (c) Any decision to locally flex would be a fundamental philosophical shift in the key performance indicators at store level – from revenue generation to margin generation;
- (d) Local flexing would lead to a significant dilution of Poundland's brand, given the loss of value for consumers. Poundland's brand equity is based on having a simple and consistent proposition based on the delivery of value to customers; and
- (e) [§§].

4.14 In other words, it would be commercially irrational for Poundland to decide as a result of the Transaction to adapt its offering on the basis of local competition.

The evidence shows that Poundland faces a very broad range of competitive constraints at the local level

4.15 Taken in the round, the evidence the Parties have provided the CMA regarding the degree of competition they face at a local level is overwhelming. In particular:

- (a) The Parties have commissioned what they believe to be largest ever consumer survey for a CMA retail merger. The results of the survey – carried out in each overlap area and across the Poundland estate – are unambiguous. The Parties' competitive set is very broad – it includes supermarkets, other VGMs and retail specialists;
- (b) This is further underlined by the PCA commissioned by the Parties. The presence of 99p Stores has no impact on the margins that Poundland is able to earn. That is, Poundland's margins are *identical* in areas where it does face a 99p Store and in areas where it does not.
- (c) In areas where the number of VGM fascia Poundland faces is reduced, its margins are constant. Econometric evidence shows that

Poundland's offering remains constant irrespective of the degree of competition it faces in any particular local areas. This means Poundland does not flex its offering based on local competition and has no incentive to do so post-merger;

- (d) The Parties have provided evidence that clearly shows they face a great deal of competition from a variety of sources in each local area in which they compete. This competition comes from a variety of sources, i.e. each of or a combination of the supermarkets, other VGMs, category specialists or independents; and
- (e) The Parties provided the CMA with evidence 'packs' for each overlap areas. These packs contained detailed information regarding the competitive constraint faced by the Parties in these areas. Each pack identifies credible competitors at the local level from a variety of retailers, in particular the supermarkets and other VGMs (to say nothing of the evidence on prospects for new entry which we discuss below).

4.16 It is clear, therefore, that evidence does not support this theory of harm.

Theory of harm 2: loss of a current competitor at a national level

- 4.17 The Statement of Issues explains that the concern under this theory of harm is that: “[Any] loss of competition between retailers at the national level is likely to arise as a result of the aggregated loss of competition in the various areas in which the two retailers operate. In other words, if the proposed transaction may be expected to result in competition concerns in local areas representing a significant proportion of the Parties’ overall business, the proposed transaction may create an incentive to worsen any of the aspects of the Parties’ offerings that are set on a national basis”.⁵⁹
- 4.18 As explained above and in numerous submissions to the CMA both at Phase I and Phase II, the Transaction will not lead to any loss of competition. This is due to a number of factors, in particular the structural shift of the UK retail industry according to which a greater proportion of consumers is expecting greater value at lower prices.
- 4.19 The fact that this structural shift is permanent bears particular emphasis and has been recognised by third party experts. For example, in a July 2014 report, Deutsche Bank noted that “[t]here is good evidence from other sectors, such as clothing and grocery, that once customers experience ‘value’ they do not return to previous shopping habits” (emphasis added).⁶⁰
- 4.20 This structural shift is particularly relevant with respect to this theory of harm. In order for this theory to succeed, the evidence would need to show that the Parties held some degree of market power. The evidence would also need to show that – on a national level – the combined entity would be able to exercise any such market power to its advantage post-merger by increasing prices or otherwise degrading its offering.

⁵⁹ *Ibid.*, ¶24.

⁶⁰ Deutsche Bank, “Big brands, big expansion plans”, 23 July 2014 – see **Annex 9**.

- 4.21 The evidence does not support this theory or any of its constituent elements.

(a) *the extent of overlap between the Parties' stores in aggregate and as a proportion of their overall business*

- 4.22 The Parties' combined share of UK High Street retail is *de minimis* – approximately [§§] as demonstrated below. Even among VGMs alone (which radically underestimates the competitive constraints that the parties face), their combined share is only [§§].

Figure 11: VGM-only market share data⁶¹

[§§]

- 4.23 The view that VGMs form a *de minimis* share of the broader UK retail sector is shared by expert third party commentators. Deutsche Bank estimates that in 2013 limited assortment discount retailers, which includes SPPs and VGMs, generated total sales of £7.2bn. Based on a 50/50 split between grocery and general merchandise. “*discounters still only represent 2.6% of the £160bn non-food retail market (ex-VAT) and 2.0% of the grocery retail sector*”.⁶²

- 4.24 As explained at paragraph 3.4 above, the incremental increase of areas where, based on the Phase I decision, Poundland faces no or limited VGM competition within one mile is such a small proportion relative to its overall business (respectively an increase of approximately [§§] and [§§] of its estate), that there can be no incentive for Poundland to fundamentally change its national business strategy accordingly, where it has never done so in response to such pre-existing local competitive conditions before.

(b) *the approach taken by the Parties and factors taken into account to set and modify the aspects of their offerings that are common across all of their stores*

- 4.25 The evidence set out above clearly shows that there is absolutely no incentive, or ability, for Poundland to deviate from this national policy or to worsen its offering post-merger. To do so would be costly, significantly undermine Poundland's business model and cause serious damage to its reputation and brand. In addition to extensive actual competition, given the absence of barriers to entry in this market (as explained in Section 5 below), any degradation at national level of Poundland's value proposition would also cause national competitors in the same sector to quickly enter those areas which the Phase I decision considers to be “undercompeted”. Based on the aggressive and concrete expansion plans announced by the major VGMs and supermarkets, entry and expansion would occur to such an extent that this would defeat any attempt by a Poundland store to degrade its value offer.

- 4.26 [§§].

⁶¹ Source: 2014 Retail Week Knowledge Bank data. Figures used are for FY14. Comparable figures for FY15 are not readily available.

⁶² Deutsche Bank, “Big brands, big expansion plans”, 23 July 2014 – see Annex 9.

- 4.27 For all the reasons set out above, no local concerns arise. Given national market shares, and the lack of local concerns, it is clear that no national concern can arise either.

Theory of harm 3: loss of a potential competitor at the local level

- 4.28 The Statement of Issues explains that the concern under this theory of harm is that: “A loss of competition [similar to the one described under theory of harm 1] may arise in areas where, as a result of their expansion plans, the two Parties would have been likely to operate stores in the future absent the proposed transaction, even though they do not overlap in those areas at present”.⁶³
- 4.29 The Statement of Issues explains that the CMA will test this theory on the basis of the Parties’ expansion plans (in particular the Parties’ planned store openings) and on the basis of the expansion plans of third parties.⁶⁴
- 4.30 For all the reasons set out in Section 2 above, there is no risk of any lessening of competition in any of those areas in which Poundland proposes to expand its estate – even absent the constraint from future entry by competitors. Poundland will face a wide range of existing competitors in each such territory.
- 4.31 Furthermore, the evidence is clear that this degree of competitive constraint will increase markedly over time. As explained in detail in Poundland’s previous submissions and below, Poundland’s VGM competitors across the country have announced ambitious expansion plans. Likewise, the large national supermarket chains are not standing idle: the growth of their value offering has been a defining feature of their operations in the recent past and they continue to reposition their offering to compete directly with Poundland. More detail on the Parties’ competitors’ expansion plans are provided in Section 5 below (see paragraphs 5.7 to 5.22).
- 4.32 It may be worth noting in this respect that competitive entry is more likely in localities where Poundland is itself planning to enter. Where Poundland has spotted an opportunity for profitable entry, its capable and well-funded competitors (see further below) are likely to have made a similar evaluation.

⁶³ Statement of Issues, ¶26.

⁶⁴ *Ibid.*, ¶27.

5. Entry and expansion

- 5.1 The Statement of Issues notes that the CMA is investigating the extent to which the existence of low barriers to entry and expansion qualify as a countervailing factor to any potential SLC.⁶⁵
- 5.2 The Parties have also provided the CMA with abundant evidence – both at Phase I and during Phase II – that conclusively demonstrates the absence of any barriers to entry or expansion in the VGM sector.
- 5.3 The parties have provided the CMA with detailed evidence showing:
- (a) A consistent pattern of extensive recent entry and expansion;
 - (b) Publicly announced intentions by competitors to expand further; and
 - (c) Detailed, real time evidence showing that barriers to entry (in particular relating to the availability of suitable sites) are exceptionally low.
- 5.4 In Phase I the CMA insisted that, in this case, it required examples of actual local entry in order to find no reasonable prospect of an SLC. It is, however, neither mandatory nor necessary under the CMA’s Merger Assessment Guidelines to insist on applying a test based only on actual evidence of entry. For the CMA to adopt the same rigid approach in its Phase II assessment would be manifestly wrong. The evidence provided on the likelihood of entry and further expansion if Poundland were to degrade its value offer is of itself sufficient to demonstrate that there is no prospect of an SLC in such a situation.

(a) Evidence of rapid historic - and ongoing - industry wide expansion

- 5.5 The evidence shows the rapid historic and ongoing industry wide expansion among Poundland’s VGM competitors.⁶⁶ This evidence clearly indicates that the VGM sector has grown quickly and can expect very significant further growth in the coming years. This growth is factored into Poundland’s business plans and is reflected by the ambitious statements made by Poundland’s competitors, including the supermarkets.
- 5.6 A selection of key evidence on this point is provided below.
- (a) The **PWC report on value general merchandise (December 2013)** noted that the segment had expanded by 140% between 2005-2012. As set out in the chart below, the same report estimated that spend at VGM retailers alone will increase by more than £1bn between 2015 and 2017.

⁶⁵ *Ibid*, ¶ 28.

⁶⁶ We address expansion by supermarkets and other retailers below.

Figure 12: Estimation of spend at VGM retailers 2005-2017⁶⁷



- (b) Similarly, the *Javelin Report (November 2013)*⁶⁸ estimated that the discount sector could increase by £10.0bn. This report indicates there is potential for 6,510 discount variety stores in the UK (i.e. 4,312 more such stores than were present in November 2013).
 - (c) Poundland's *Trading Discussion document (November 2014)*⁶⁹ [☒].
 - (d) Poundland's *2014 Annual Report*⁷⁰ states that the discount sector was one of the fastest growing sectors within UK retail, having grown at a CAGR of “approximately 15% since 2007, predominantly driven by rapid store roll out. The 2014 Annual Report also notes the significant long-term growth potential “with the market forecast by PwC to grow at a CAGR of approximately 9.3% per year between 2012 and 2017”.
 - (e) Poundland *2015 Business Plan*⁷¹ [☒].
- 5.7 It is important to note that it is by no means the case that the Parties have been the only VGMs to expand rapidly over the past 10 years, as is demonstrated by in Figure 13 below:

⁶⁷ See Merger Notice, Annex 6J

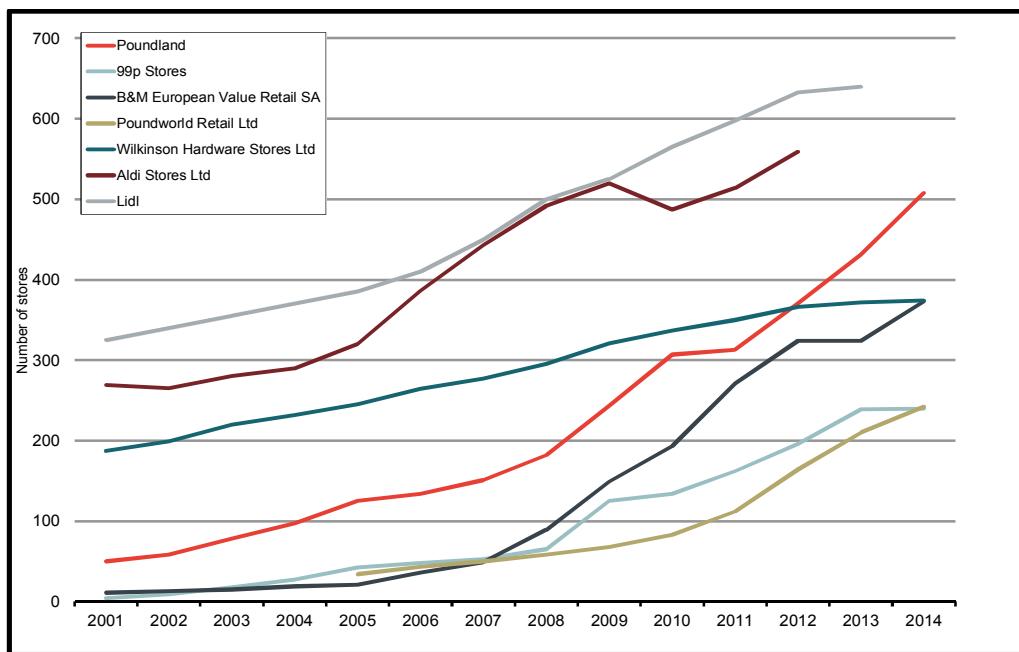
⁶⁸ See Merger Notice, Annex 6K, p.13.

⁶⁹ See Merger Notice, Annex 6L, p.21 and p.29.

⁷⁰ See Merger Notice, Annex 4

⁷¹ See Merger Notice, Annex 5, p.35.

Figure 13: Growth in number of stores since 2001⁷²



Evidence of extensive expansion planned by Poundland's competitors

5.8 Poundland has provided the CMA with extensive evidence of the ambitious expansion plans of its competitors. In particular, as indicated in the Merger Notice and in the initial submission, competitors have made public statements announcing significant expansion plans for 2015/2016, **totalling close to 350 store openings in the next year alone**. This equates to the following number of new stores:⁷³

- (a) Aldi: around 60 stores (2015)⁷⁴
- (b) B&M: 60 stores (2015)⁷⁵
- (c) Home Bargains: around 60 stores (2015), around 60 stores (2016)⁷⁶
- (d) Lidl: 20-40 stores (2015), 20-40 stores (2016)⁷⁷
- (e) Poundstretcher: 50 stores (2015)⁷⁸

⁷² See Initial Submission, para. 50(a). Source: Retail Week Knowledge Bank. Data unavailable for Poundstretcher and Home Bargains.

⁷³ See in particular the table in the Initial Submission, para. 50(b).

⁷⁴ *Ibid.*, The Guardian, “[Aldi outstrips supermarket rivals with store expansion](#)”, 22 March 2015.

⁷⁵ *Ibid.*, Financial Times, “[B&M plans more stores in southeast England](#)”, 28 May 2015.

⁷⁶ *Ibid.*, Retail Week, “[Home Bargains profits jump as it plots expansion in the south](#)”, 14 October 2014 and <http://www.tjmorris.co.uk/>, based on pro rata assumptions of plan to expand from 400 to over 700 stores across the UK within the next five years (approx. 60 openings per year).

⁷⁷ *Ibid.*, This is Money.co.uk, “[LIDL BOSS: We're expanding from Lidl to large - soon we'll have an empire of 1,500 stores](#)”, 27 August 2014.

- (f) Poundworld: 40-50 stores (2015), 40-50 stores (2016)⁷⁹
- (g) Wilkos: around 25 stores (2015), and around 25 stores (2016)⁸⁰

Commentary from competitors and expert commentators

5.9 In addition to the specific figures announced above, competitors could scarcely have been clearer in their other public statements about their plans for expansion, as set out in the table below.

Figure 14: Sample of public statements regarding expansion plans by Poundland's competitors

Competitor	Statement
Asda	Asda recently unveiled its 2015 business plan which announced “ <i>a £600m investment plan in expanding and improving the Asda store estate</i> ”, including “ <i>17 new store openings in 2015 including 3 supermarkets in London</i> ” ⁸¹
Aldi	“ <i>Aldi has underlined its UK ambitions with expansion plans that outstrip those of other supermarkets, opening almost twice as much new store space this year than its nearest rivals. Aldi, which arrived in the UK a quarter of a century ago, will add just over a million square feet of floor space, around 60 stores, in 2015. This is a bigger expansion than Sainsbury's, Morrisons and Tesco put together</i> ” ⁸² ;
Lidl	“ <i>Lidl will also be adding 340,000 sq ft of new space, twice Tesco's planned growth for 2015</i> ” ⁸³ ;
B&M	B&M announced that it is further “ <i>ramping up its store opening plans</i> ” ⁸⁴ ;
Home Bargains	Home Bargains has outlined plans to expand from 370 to over 700 stores within the next five years
Poundworld	Poundworld's new owner, private equity house TPG, is said to bring the experience needed for Poundworld's “ <i>very ambitious</i>

⁷⁸ *Ibid.*, The Retail Times, “[Poundstretcher reports 6% sales increase for 2014 and plans to expand](#)”, 22 July 2014 and The Grocer, “[Poundstretcher plans to focus on retail parks and open Pet Hut store](#)”, 7 December 2013.

⁷⁹ *Ibid.*, The Retail Bulletin, “[Poundworld secures £26 million in new funding to drive growth](#)”, 30 June 2014.

⁸⁰ *Ibid.*, Retail Week, “[Wilko plans 100 new stores as it posts flat full-year profits](#)”, 20 August 2014, based on pro rata assumptions of plan to open 100 new stores by 2019.

⁸¹ Asda Press Release, “[Asda unveils its fourth quarter and full year strategy update and announces £600m investment in stores](#)”, 19 February 2015 – see Initial Submission, p12.

⁸² The Guardian, “[Aldi outstrips supermarket rivals with store expansion](#)”, 22 March 2015 – see Initial Submission, p19.

⁸³ *Ibid.*

⁸⁴ Financial Times, “[B&M plans more stores in southeast England](#)”, 28 May 2015 – see Initial Submission, p20.

Competitor	Statement
	<i>goals". It has further been noted that TPG will "invest in expanding Poundworld's store footprint across the UK".⁸⁵</i>

5.10 Expert commentators are equally clear about the extent of current and expected entry:

- (a) *"The discounters — including Aldi, Lidl and frozen food specialist Iceland — and the value chains — such as Poundland and B&M — increased their store footprints at a rate outstripping their supermarket rivals".⁸⁶*
- (b) *"The top line is that the discounters 5 year annualised growth rate has overtaken that of not only the supermarkets but also the convenience stores. (...) [Convenience stores] come second with a 5 year CAGR of 7.6%, the supermarkets at 6.0% and the discounters (Lidl, Aldi, Poundland, B&M Bargains, Iceland, 99p stores etc) at a significant 8.2%."⁸⁷*
- (c) *"[T]he discount channel is extremely dynamic and competitive and that both the general merchandise and fast moving consumer goods elements of the market in the UK have extensive and, if anything, growing choice with the expansion and evolution of grocery limited assortment retailers (LADs) such as Aldi, Lidl and Netto (...) and general merchandise high street value retailers... "⁸⁸*
- (d) IGD also reports that *"over the next five years, the discount channel will grow sales by £10.5bn – more than any other channel – driven by expansion and stronger performance at both the food and high street discounters"⁸⁹*. It further estimates that *"discounters such as Aldi and Lidl are set to double their sales in the next five years, accounting for £1 in every £9 spent by 2019".⁹⁰*

Entry since the publication of the CMA's referral decision

- 5.11 Even in the short period since the CMA's referral decision, there has been extensive expansion by Poundland's competitors.
- 5.12 A list of all new store openings that Poundland has been able to identify since 9 April 2015 by major VGM operators is set out in Annex 2. This is likely to be a conservative estimate of recent openings, as it relates solely to competitor openings that Poundland has been able to identify from publicly available

⁸⁵ Financial Times, "[US buyout group TPG snaps up UK discounter Poundworld](#)", 14 May 2015.

⁸⁶ Financial Times, "[Discounters' store openings reveal heat on UK grocers](#)", 22 June 2015.

⁸⁷ Local Data Company, "[What does the rise of the discounters tell us?](#)", 24 June 2015.

⁸⁸ See Annex 11 of Poundland's response to the CMA's First Day Letter (the ***First Day Letter Response***)

⁸⁹ IGD, "[What will the grocery market look like in 2020](#)", 3 June 2015.

⁹⁰ Food Manufacture, "[Discount retailers to get stronger, says IGD](#)", 30 June 2014

sources (e.g. Twitter, local newspapers, websites, etc.). It also excludes openings by independent and regional discount retailers.

- 5.13 A selection of openings since the CMA's referral decision of 9 April 2015 is provided below.

Figure 15: Sample of competitor openings since 9 April 2015

Competitor	Number of new stores
Poundworld	<ul style="list-style-type: none">• Six new stores (including several in the South of England)
B&M	<ul style="list-style-type: none">• 27 new stores• Announcement of seven additional stores to be opened by July 2015
Home Bargains	<ul style="list-style-type: none">• Ten new stores
Aldi	<ul style="list-style-type: none">• Eight new stores
Lidl	<ul style="list-style-type: none">• Two new stores in June 2015 alone
Wilkos	<ul style="list-style-type: none">• Two new stores in Beeston and Ashton Under Lyne and an announcement that it plans to open a new store in Chester

- 5.14 The announced plans, and recent openings include a large number in the South East which has recovered at a higher rate than other parts of the country. Asda, for example, announced that it is opening 11 new stores (two of which would be of a smaller format) in the greater London region over the next few months with plans for a further 150 by 2018.⁹¹ These plans highlight the availability of suitable sites on every high street across the country and show that low barriers to entry and expansion are not limited to certain pockets of the UK.

Evidence of greenfield new entry: Mike Ashley

- 5.15 Over the weekend of 30/31 May 2015, it was reported that Mike Ashley was launching a new "Mega Value" store concept which would amount to a completely new, and significant entrant.⁹²
- 5.16 Reports noted that: "*The Mega Value shop has been launched with the promise 'We will beat anyone's price' and is likely to unsettle other discounts stores, which will be aware of Ashley's reputation for negotiating a bargain price with suppliers. A source said: 'It is very similar to a B&M or Wilko store.'*"
- 5.17 That Mike Ashley, who is, as the CMA is aware, behind one of the most successful UK High Street retail stores in the past decade (Sports Direct), has made plans to enter the market, appears, on its face, to confirm Poundland's submissions about low barriers to entry and expansion.

⁹¹ This is Money: "[Asda staging major push in South with plans to open 150 more stores by 2018](#)", 22 March 2015.

⁹² This is Money, "[Mike Ashley in secret plan to launch chain of cut-price high street stores - just as Woolworths name is up for grabs](#)", 31 May 2015 and Retail Week, [Mike Ashley enters discount sector with launch of Mega Value store](#), 1 June 2015 – see Annexes 1 and 2 to the Addendum to the Initial Submission.

- 5.18 The article also notes that “*there are a lot of empty shops about where you could easily slot one of these [Mega Value Stores]*”. The perception, both of the media, and it seems of the Mike Ashley Mega Value team, is clearly that suitable and ample retail space is both plentiful and readily available across the country.

Evidence of entry and expansion by independents

- 5.19 The evidence with respect to the low barriers to entry and expansion in this sector is not limited to operators with a certain scale. It applies equally to independents that, as the Parties have demonstrated, act as an effective constraint in the areas in which they operate.
- 5.20 Indeed, the Local Data Company (**LDC**) has estimated that there are over 800 independently operated outlets competing with the parties in the UK.⁹³ The constraint imposed by these independents continues to grow, as recent data from LDC confirms that “*Independent convenience stores had CAGR of +5.3% over the last 5 years increasing from 3,664 in 2011 to 4,504 in 2015 (May)*.⁹⁴
- 5.21 As part of its Poundland’s merger notification it set out case studies showing the expansion of Sam99p and Max 99p.⁹⁵ As a reminder, the key points showing how Sam99p and Max99p entry and expansion evidences low barriers to entry are set out below:
- (a) Sam99p was founded in 2005 and has since expanded to over 18 locations. Sam99p reported sales of £14.6m for the year ending August 2013 with a fixed asset base of only £0.5m and just over £1m of stock.
 - (b) Discount retailer Max 99p Ltd – which was set up by former 99p Stores’ employees – opened its first store in Chelmsford in December 2013. It has four stores open as at June 2015 has stated ambitions to open further 10 stores by the end of 2015.
- 5.22 Independents have been able to set up these stores because the costs associated with entry are low and due to the fact there has been a plentiful supply of suitable retail space.
- 5.23 In order to further evidence this point, Poundland has provided the CMA with a case study for a new entrant that sets out the costs of entry.⁹⁶ This showed, that with an initial investment of [§], a new entrant could realistically expect to achieve annual sales of [§]. Assuming annual EBITDA of [§], a new entrant would have recouped its initial investment within less than [§].

⁹³ See Merger Notice, Figure 12.

⁹⁴ LDC Report, “The Inconvenient Truth”, June 2015.

⁹⁵ The Max99p and Sam99p case studies are set out in full at paragraph 176 of the Merger Notice.

⁹⁶ The new entrant case study is set out in full at paragraph 178 of and Annex 4 to the Merger Notice.

Evidence of anticipated rapid store growth in UK sector

- 5.24 In July 2015, it was reported that Andy Bond, who led Asda for 5 years up until 2010, believed his new discount clothing start-up (Pep & Co) had the potential to grow to a 1,000 strong chain.⁹⁷
- 5.25 The sites being sought by the new chain (“*traditionally sized stores rather than the superstores that Primark has gravitated towards*”) are exactly those most suitable for VGM or supermarket convenience store entry. Indeed, Bond referred to Poundland’s expansion as an example of potential for growth in the article: “*We've got to make 50 stores work first, but nobody should feel that our ambition is 50 stores*”, said Mr Bond. “*If this works then the analogy would be how many Iceland stores there are, how many Poundland say they can open. There seems to be a common theme of around 800 or 1,000 locations.*”⁹⁸
- 5.26 While the chain will not be a material competitor to the parties (as it specialises in clothing), the fact that Pep & Co consider that they can open 50 stores quickly with a stated ambition to grow to 800 to 1000 locations seems to be further evidence that there cannot be any barrier to entry and expansion related to site availability.

Evidence of entry and expansion by overseas value retailers

Aldi & Lidl

- 5.27 The Parties’s merger notice provided contemporaneous examples of expansion by overseas retailers in competition with the parties.⁹⁹ The two largest relevant overseas retailers that operate in the UK – Aldi and Lidl – operate respectively more than 500 and more than 600 UK stores. With a grocery market share of 4.8% (in August 2014), Aldi is in fact the largest discount grocer in the UK.
- 5.28 Aldi and Lidl have very ambitious expansion plans. The BBC has reported that Aldi “*aims to have 1,000 stores by 2022 and will open 54 this year and 60 to 65 next year*”.¹⁰⁰ Lidl has announced similarly extensive expansion plans stating that it intends to open 20 to 40 more each year. “*Ultimately, Gottschlich has set his sights on an empire with a chain of 1,500 in the UK. 'We are investing £220m this year in stores and warehouses,' he says. 'We are seeking to do extensions wherever possible'.*”¹⁰¹
- 5.29 More recently, in the period following the submission of the merger notice, further expansion has been reported. The Independent has noted that “*Aldi is to open more than 70 new stores and recruit almost 5,000 staff this year as it*

⁹⁷ See The Times, “[Bond gives Pep talk as discount chain opens](#)”, 2 July 2015

⁹⁸ *Ibid.*

⁹⁹ See Merger Notice, Figure 12.

¹⁰⁰ BBC, “[Aldi aiming to create 35,000 jobs](#)”, 10 November 2015 - see Annex 1y to the Merger Notice.

¹⁰¹ This is Money, “[LIDL BOSS We're expanding from Lidl to large – soon we'll have an empire of 1,500 stores](#)”, 27 August 2014 - see Merger Notice, Annex 1R.

*ramps up its competition to take on the established “Big Four” supermarkets”.*¹⁰²

- 5.30 It is also evident that these retailers are having no problem finding suitable retail space, as “*Aldi and Lidl expansion plans speed ahead of Tesco, Sainsbury’s, Morrisons and Asda in supermarket wars with five times as many planning applications*”.¹⁰³

Hema

- 5.31 Furthermore, in June 2014, Hema, a Dutch value retailer, entered the UK market with an offering aimed at competing head-on with many of the Parties’ most important product categories.¹⁰⁴

- 5.32 Hema has opened three stores in London, one in Victoria Place, one in Kingston and one in Bromley, as well as a local online store.

Tiger Stores

- 5.33 Another example is Tiger Stores, a Danish entrant, that opened its first UK store in 2005 and currently has over 40 shops.¹⁰⁵ It continues to expand in the UK market.¹⁰⁶ Tiger’s managing director for London & South East announced that: “[Tiger] have signed on five more sites in high profile areas, all due to open in the first half of the year, with plans for further openings later in the year.”¹⁰⁷

Netto

- 5.34 Netto, another Danish discounter, part of Dansk Supermarked, withdrew from the UK in 2010 after selling its estate to Asda but returned in a joint venture with Sainsbury’s in late 2014. Netto is to trial 15 stores by the end of 2015, stocking private label brands to suit various budgets.¹⁰⁸

- 5.35 The ease and speed with which foreign companies can enter and expand into the UK discount segment shows that there are no real barriers to entry (e.g. regulatory, financial or property related). If the Parties were to degrade their offer, these new and growing entrants could, and would, respond instantly and entry from other retailers – including from those currently located outside of the UK – would almost certainly follow.

¹⁰² The Independent, “[Aldi to open 70 more UK stores and recruit almost 5,000 staff](#)”, 4 February 2015.

¹⁰³ CityAM, “[Aldi and Lidl expansion plans speed ahead of Tesco, Sainsbury’s, Morrisons and Asda in supermarket wars with five times as many planning applications](#)”, 5 May 2015.

¹⁰⁴ The Independent, “[Hema arrives in Britain: A trip to the shop will soon mean going Dutch](#)”, 8 June 2014.

¹⁰⁵ The Guardian, “[Posh pound shop: Tiger sinks its claws into UK high street](#)”, 30 March 2014.

¹⁰⁶ RetailWeek, “[Value retailer Tiger store expansion drives 63% profit uplift](#)”, 18 February 2014.

¹⁰⁷ The Retail Bulletin, “[Tiger Continues UK Expansion](#)”, 4 March 2015.

¹⁰⁸ Reuters, “[Sainsbury takes fight to discounters with Netto store opening](#)”, 11 November 2014.

Evidence of supermarkets' repositioning to compete even more strongly with Poundland

- 5.36 The Parties explained during Phase I that supermarkets are repositioning to compete even more strongly with Poundland. This is in addition to their existing offerings which are highly competitive.
- 5.37 This shift recognises the structural trend referred to throughout this submission. As experienced and powerful retailers, the supermarkets have understood that the only way to ensure that customers continue to shop with them is to offer them better deals for a broader range of products.
- 5.38 This broader trend has been reported on widely. The Parties have provided numerous examples of the broader – and irreversible – trend of the supermarkets’ investment in value. For example:
- (a) In May 2014, the Financial Times reported that Tesco had “*stepped up its offensive against the hard discounters and pound stores*” by dedicating aisles in its stores to cut-price products. The article further noted Britain’s “Big Four” grocers – Tesco, Asda, J Sainsbury and Wm Morrison were battling a growing number of pound shops including Poundland and B&M.
 - (b) In November 2014, the Guardian wrote that Sainsbury’s had been forced to join “*the supermarket price war*”. This article stated that Tesco, Morrisons and Sainsbury’s are all seeing sales decline sharply as customers started replaced shopping at superstores and big weekly shopping expeditions in favour of shopping more locally and more often. The article goes on to note that customers were said to be looking for better deals, shopping at new retailers, buying less product and wasting less. Another noted trend was the increased importance of online shopping also growing rapidly. The article goes on to state that: “*Those trends are boosting the discounters – especially Aldi, Lidl and Poundland – and convenience stores, rather than the traditional big supermarkets*”. It is further noted that this has lead the supermarkets to respond by cutting prices to attract customers back and target the likes of Poundland even more directly.¹⁰⁹
 - (c) Asda announced that it had set aside £300 million to cut prices in the first quarter of 2015.¹¹⁰
 - (d) More recently, in June 2015 it was reported that there was “[*m*]ore joy for shoppers as Morrisons slashes food prices amid fierce supermarket battle”. The article goes on to note that “[*t*he]grocer has slashed prices on everyday items - including bread, milk and butter - by up to a third as the supermarket continues to push the cost of a family's shopping down” as well as statements from Morrisons’ new CEO: “*We want to be the best value retailer – offering customers the best price*

¹⁰⁹ The Guardian, “[Sainsbury’s cuts sales forecast and reviews dividend](#)”, 1 October 2014 – see Merger Notice, Annex 1T.

¹¹⁰ Asda press release, “[Asda launches its biggest ever rollback and brings basketloads of lower price to customers](#)”, 6 January 2015 – see Initial Submission, p.13.

for good quality British products [...] Today we've reset some of our prices so that our cupboard essentials will be amongst the lowest on the market".¹¹¹

- (e) Waitrose has also invested significantly in the recent price war between the large national chains. It has introduced a scheme by which it is the customer that chooses discounts. This has been described as a "game changing" move.¹¹²
- 5.39 Other mechanisms the supermarkets have used to reposition their offering include:
- (a) Expansion into the convenience format; and
 - (b) Proliferation of discount and £1 aisles in existing stores.
- 5.40 **Convenience store expansion.** Supermarkets' convenience store formats compete with the Parties on the High Street for top-up shopping missions, focussing on the FMCG, Health & Beauty and household goods categories.
- 5.41 The press articles submitted with the Merger Notice highlight the extent of the expansion. For example, these articles note:
- (a) "*Sainsbury's Locals now account for 27% of the UK's convenience market growth, with sales of over £1.5 billion and year-on-year growth of nearly 20%. The company is currently opening about two convenience stores every week and has over 630 convenience stores nationwide.*"¹¹³
 - (b) It is noted that this trend is set to continue: "*Sainsbury's is accelerating the expansion of its convenience store business in London and the South East with plans to open 50 new stores by early 2014. This will create over 1,000 local jobs.*"¹¹⁴
 - (c) At its full-year results in April, the Co-op announced it plans to open 100 convenience stores by the end of 2015 responding to structural changes in the market as "*people are shopping more locally and more conveniently*".¹¹⁵
 - (d) The expansion into the convenience store format is occurring across the board, as reported in this RetailWeek article: "*Sainsbury's small store portfolio overtakes its supermarkets for the first time and Tesco,*

¹¹¹ The Express, "[Morrisons slashes food prices amid fierce supermarket battle](#)", 8 June 2015.

¹¹² The Telegraph, "[Waitrose to let shoppers pick discounts in game changing move](#)", 18 June 2015.

¹¹³ Sainsbury's press release, "[Sainsbury's opens 200th convenience store in London](#)", 30 May 2014, see Merger Notice, Annex 1K.

¹¹⁴ *Ibid.*

¹¹⁵ RetailWeek, "[Co-op targets London expansion and eyes concessions in its larger stores](#)", 3 July 2015.

the Co-op and Morrisons aggressively expand their convenience portfolio, the hunt for small space is intensifying.¹¹⁶

- (e) Recent data LDC also firmly supports this trend. The convenience stores' footprint increased at 7.6% over the past five years, which amounts to a total increase of convenience stores from 8,956 stores in 2011 to 12,831 stores in May 2015.¹¹⁷
- (f) The expansion of convenience stores along the High Street further adds to the competition with supermarkets. As reported by the Financial Times: “[t]he data also show that the so-called race for space in the supermarket sector, which saw the big grocers open an unprecedented number of new stores, has shifted from mainstream supermarkets to convenience stores and discount outlets, putting more pressure on Britain's big grocery groups.”¹¹⁸
- 5.42 The Parties' evidence also shows that this trend is prevalent amongst all of Poundland's competitors, not just the Big Four supermarkets. Aldi's expansion into the convenience sector has been well-documented: “Aldi has already opened a trial store in Kilburn, north London (...) It is part of a £600m budget the German discounter has at its disposal to open more, smaller sites. Rival Lidl is also set to open its first convenience store in London's Kentish Town, on a former Coop site – beating off stiff competition from Waitrose, which is also keen to roll out more convenience stores across the capital.”¹¹⁹
- 5.43 This trend continues, with Asda being the most recent supermarket to expand into the convenience store format. On 30 June 2015, RetailWeek reported Asda's “first foray on to the High Street”.¹²⁰ Notably, Asda's new store also includes a significant number of displays at or below the £1 price point, highlighting that Asda is repositioning its offering in a number of ways to compete even more strongly with discount retailers.



¹¹⁶ RetailWeek, “[Analysis: Supermarkets expand convenience store format](#)”, 27 February 2014.

¹¹⁷ LDC Report, “The Inconvenient Truth”, June 2015.

¹¹⁸ Financial Times, “[Discounters' store openings reveal heat on UK grocers](#)”, 22 June 2015.

¹¹⁹ The Independent, “[Aldi and Lidl step up attack on the high street](#)”, 15 November 2014 - see Merger Notice, Annex 1Z

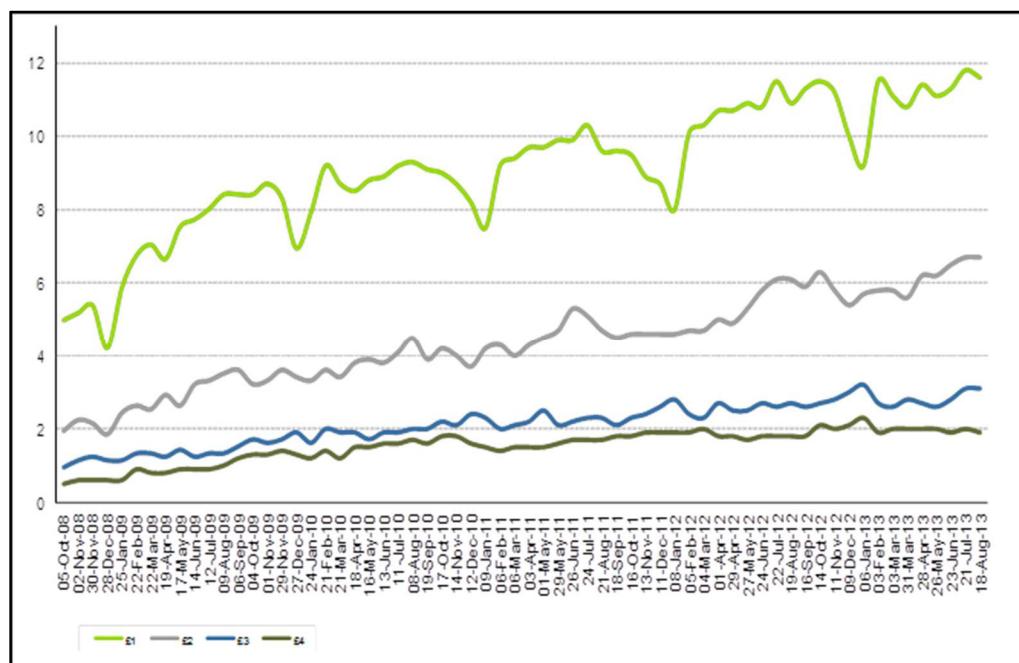
¹²⁰ RetailWeek, “[Store Gallery: Asda opens its first High Street store in Wealdstone](#)”, 30 June 2015.

5.44 **Proliferation of ‘poundstore’ formats by the supermarkets.** In addition, incumbents have been adding discount and £1 aisles in existing stores, which would generally involve no significant additional cost. Poundland has provided extensive photographic evidence showing:¹²¹

- (a) Tesco’s in-store discount concept “Tesco Brand Outlet: “*All your favourite brands for a pound or less*” and “*Poundshop*”,¹²²
- (b) Tesco’s website branded as “£SHOP”,¹²³
- (c) Asda’s promotional materials advertising “*Over 7000 items now £1 each or less*”,¹²⁴ and
- (d) As Poundland has explained to the CMA, Tesco has also appointed Paul Bangs in the role of “Pound Shop Buying Manager” and [☒].¹²⁵

5.45 Third party data from Kantar Worldpanel further evidences the widespread proliferation of the £1 price point across the industry.

Figure 16: Proportion Of Sales At £1 Price Point¹²⁶



5.46 Furthermore, [☒], the Parties have observed Savers’ recent expansion from a category specialist into other product categories, including food & drink and

¹²¹ See Poundland’s response dated 20 January 2015 to question 1.A.3 of the CMA’s 14 January 2015 request for information.

¹²² See Merger Notice, Figure 12.

¹²³ *Ibid.*

¹²⁴ *Ibid.*

¹²⁵ Initial Submission, para. 29 (d)

¹²⁶ See Merger Notice, Figure 19, p.67. Source: Kantar Worldpanel data 12 weeks 18th August 2013.

household goods, to compete more broadly with the parties. For example, the fact that Savers is also expanding its £1 offering [☒].

Real-time evidence of retail vacancies to accommodate this ongoing entry and expansion

- 5.47 Poundland has provided the CMA with detailed local evidence from its property consultants on real time, suitable vacancies during Phase I, showing that in each of the overlap areas identified there were available retail vacancies to accommodate entry/expansion post-merger.¹²⁷ The GOAD maps were accompanied by documents showing vacancies and any relevant information such as floor space, service charges and leasehold terms.
- 5.48 Poundland specifically instructed its property consultants to provide details of available retail units that would be suitable for new Poundland stores. All of the retail units provided alongside the GOAD maps were deemed by Poundland's property consultants to be suitable for Poundland's business model, including consideration of the level of rent and the length of the leases, and must therefore also be appropriate for its competitors. We set out just one example (from Luton) below:

Figure 17: Example of evaluation of suitable available retail units in Luton¹²⁸

[☒]

- 5.49 Poundland's own data has been corroborated by a large amount of expert commentary, including data from LDC showing that UK vacancy rates have been above 13% since early 2010. Rates peaked in late 2010 and again in 2012. The retail vacancy rate in October 2014 was 13.2%; the lowest level since June 2010.¹²⁹ As of June 2015, the shop vacancy rate remains unchanged at 13%.¹³⁰

In other words, the economic recovery has not been accompanied by a return to pre-recession vacancy rates. Across the main 650 UK centres for retail, among vacant units, one in three has been vacant for more than three years and 61.1% have been vacant for more than a year.

- 5.50 Although vacancy rates vary by region, even densely populated regions such as London and the South-East maintain a degree of availability, with the LDC estimating the vacancy rate in Greater London at 9.7%. Competitors such as B&M and Asda have specifically announced extensive expansion plans for London and the South-East.

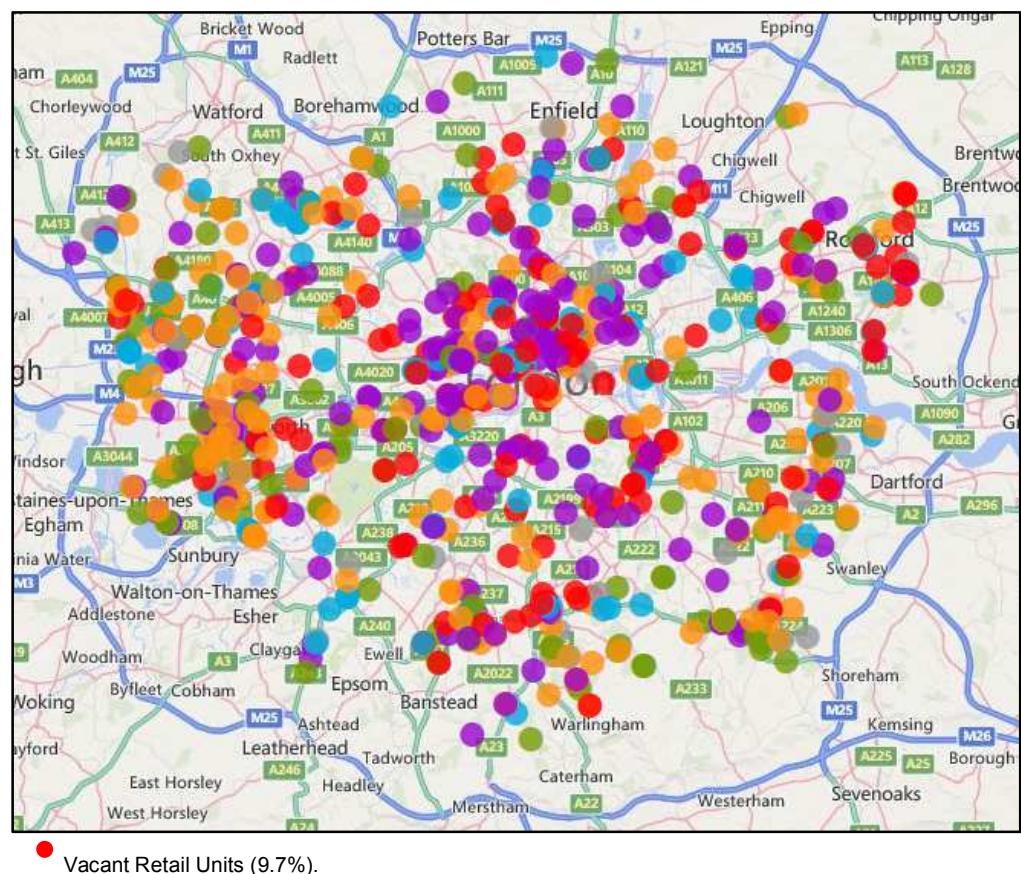
¹²⁷ See Merger Notice, Annex 21 containing 118 evidence 'packs' provided for certain local overlap areas on suitable retail vacancies.

¹²⁸ See Issues Meeting Presentation, slides 81-82. Source: Poundland internal data.

¹²⁹ Local Data Company press release dated 10 November 2014 - see Annex 1cc of the Merger Notice.

¹³⁰ Local Data Company, "[Britain's shop vacancy rate remains at 13.0% in June](#)", 6 July 2015.

Figure 18: Greater London Vacancy Rates¹³¹



- 5.51 Finally, the most recent LDC figures show that discount retailers are indeed “opening at the rate of more than five a week”¹³² and “have opened 1,367 units over the last five years, which represents growth of 48 per cent and takes the total to 4,217”.¹³³
- 5.52 It is clear, therefore, that the evidence conclusively shows that one of the reasons for the very ambitious expansion plans of the various players in this industry is the existence of adequate and readily available retail space.

Evidence of very low costs and limited time involved in entry or expansion

- 5.53 The Merger Notice contains detailed, real-world, evidence that stores can be opened quickly and with minimal risk. This is an additional factor that fuels the dynamic expansion and entry plans that characterised this sector.
- 5.54 Poundland’s experience is that, on average, store set-up time is between [X] from lease completion. However, Poundland’s temporary store concept for Christmas evidences that stores can be opened in just [X] from obtaining access to the property.¹³⁴ New entrants may well choose to open stores on a

¹³¹ Source: LDC data.

¹³² The Daily Mail, “[The march of budget stores continues: Chains including Aldi, Lidl and Poundland are overtaking the 'big four' supermarkets as they open at the rate of more than five a week](#)”, 11 May 2015 - see Initial Submission, p.22.

¹³³ Local Data Company, “Supermarkets vs. Discounters”, April 2015.

¹³⁴ See Merger Notice, para. 160 and Figure 22.

licence basis, for example to trial the profitability of the specific area, which would reduce set-up time even further.

- 5.55 Typically, Poundland's set-up costs are approximately [£] per store. Any of our high street competitors could set-up with an investment of [£], or less if using second hand fixtures (which are readily available), and investment in stock of a further [£].
- 5.56 The risks borne by a competitor entering or expanding into a new local area are extremely low, due to a combination of low set-up costs, landlords who are willing to offer flexible and short leases (particularly in light of persistent retail vacancies) and established supply channels. On average set-up costs will be recouped between [£] months from opening.

Conclusion

- 5.57 In summary, Poundland has provided overwhelming evidence that aggressive entry and expansion is a continuous feature in the market. As a consequence, any attempt by Poundland to degrade its value offer would be quickly undermined. The evidence provided shows:
- (a) A history of consistent and significant growth and expansion across the entire market;
 - (b) Ongoing further expansion by Poundland's competitors, not just by a few, but indeed all major VGMs and LADs have announced detailed and ambitious expansion plans for the next years;
 - (c) Real-time evidence of entry and expansion since publication of the Phase I decision, including two completely new entrants – Mega Value and Pep & Co – and actual expansion by more than 60 stores in several weeks by the major VGMs and LADs alone; and
 - (d) Additional expansion by supermarkets into the discount segment through the opening of further convenience formats on the High Street (most recently by Asda) and repositioning of their offering to compete even more fiercely with the VGMs and LADs.
- 5.58 Furthermore, there is no evidence to suggest that the level at which entry and expansion has occurred over the past years is slowing down. Retail vacancy rates remain persistently high, with no material change expected (including in the densely populated South-East).¹³⁵
- 5.59 Finally, this market has no regulatory burdens or requirements and the risks, costs and times associated with set-up are extremely low. As such there are no factors which would put incumbents in a more favourable position to expand. This is evidenced by, *inter alia*, the ease with which independents and overseas retailers have entered in recent years.

¹³⁵ Local Data Company, “[Britain's shop vacancy rate remains at 13.0% in June](#)”, 6 July 2015.

6. Relevant customer benefits

- 6.1 The Parties have made available evidence which clearly shows that the merger will give rise to relevant customer benefits. Relevant customer benefits are defined in Section 30(1) of the Enterprise Act 2002 as including “*benefit[s] to relevant customers... in the form of lower prices, higher quality or greater choice of goods or services in any market in the United Kingdom (whether or not the market or markets in which the substantial lessening of competition concerned has, or may have, occurred or (as the case may be) may occur).*” Examples of relevant customer benefits are given in the Enterprise Act and in the CC/OFT Merger Assessment Guidelines (2010) as adopted by the CMA.¹³⁶
- 6.2 Poundland has explained that the following customer benefits will result from the merger:
- (a) a significant enhancement of the customer proposition, resulting from the application of Poundland’s offering across the 99p store estate;
 - (b) significant buying benefits which will be passed on to consumers; and
 - (c) the creation of a stronger competitor to the UK’s largest retailers, which will enhance rivalry.
- 6.3 These three benefits will create considerable value for customers. We estimate that the additional consumer surplus benefits arising from the fact that customers prefer the Poundland offer to the 99p Stores offer amount to [☒] annually. The additional benefits to consumers due to buying synergies range from [☒], depending on the assumption made about pass on.¹³⁷
- 6.4 The additional benefits arising from the increased rivalry exerted on the supermarkets and across the High Street more generally are impossible to quantify. However, on a qualitative basis they clearly are potentially very large indeed. And given the existing impact of the rise of discount stores including Poundland on improving the value for money offer of conventional supermarkets, they provide a further – and overwhelmingly positive – reason for the CMA to support this transaction.
- 6.5 We further demonstrate below, as required by the CC/OFT Merger Guidelines (2010), that each of these benefits is merger-specific, timely and verifiable. Given that the Parties do not believe that the merger gives rise to any prospect of an SLC, the question of whether these benefits are sufficient to overturn any SLC finding is moot. However, it can be seen from the magnitudes of the sums involved that the prospect of there being an SLC of a scale sufficient to more than offset these benefits is remote.

¹³⁶ See Section 5.7 of the CC/OFT Merger Assessment Guidelines (2010).

¹³⁷ We note that the Enterprise Act enables the CMA to take into account merger benefits in markets other than where the SLC may be found (CC/OFT Merger Guidelines (2010), paragraph 5.7.3), and to look at those benefits over time. [☒].

A significant enhancement of the customer proposition, arising from the application of Poundland's offering across the 99p store estate and generating substantial additional consumer surplus

- 6.6 A key merger-specific relevant customer benefit arising from the Transaction is the expansion of Poundland's retail proposition into existing 99p Stores' sites. The available evidence clearly demonstrates that Poundland's proposition is preferred to that of 99p Stores and, as such, the merger will considerably improve the offer for existing 99p Stores' customers.

It is clear that customers prefer Poundland's offer to that of 99p Stores by comparing sales densities (i.e. sales per square foot) across the Parties' respective stores. Figure 19 below contrasts Poundland and 99p Stores' average sales densities across a range of different store sizes. It shows that, regardless of which size of store is considered, Poundland is able to achieve a considerably higher sales density than 99p Stores on a like-for-like basis. The only possible interpretation of this evidence is that customers significantly prefer the Poundland offer to that of 99p Stores.

Figure 19: Average sales densities – Poundland versus 99p Stores¹³⁸

[☒]

- 6.7 Customers' preference for Poundland over 99p Stores is confirmed by looking at relative sales densities in areas where Poundland and 99p Stores overlap at a distance of one mile, relative to sales densities in non-overlap areas. Figure 20 below shows that there is virtually no difference in the sales density differential between overlap areas and non-overlap areas.

Figure 20: Average sales densities in overlap and non-overlap areas¹³⁹

[☒]

- 6.8 Figure 20 above demonstrates that where customers currently have a choice between a Poundland store and a 99p Store shop, they prefer the Poundland store to a considerable extent.¹⁴⁰ Poundland's ability to generate higher sales densities than 99p Stores – regardless of store size or any other factors – is due to Poundland attracting significantly more customer visits than 99p Stores. On average, Poundland has [☒] higher sales volumes on a weekly basis than 99p Stores, controlling for store rent, size, age and region.¹⁴¹

¹³⁸ Not previously submitted. Source: Frontier analysis of Poundland and 99p Stores' data. Sales densities calculated using net sales excluding VAT.

¹³⁹ Not previously submitted. Source: Frontier analysis of Poundland and 99p Stores' data.

¹⁴⁰ The results set out in Figure 19 and Figure 20 above are robust to controlling for other factors that may affect the Parties' sales densities, including both store characteristics (e.g. store size) and local area factors (e.g. population density).

¹⁴¹ More detail on this analysis of the sales density differential can be found in Annex 4.

6.9 Given the insignificant difference in price level between Poundland and 99p Stores, it must be the case that other intrinsic features of Poundland's proposition are substantially more attractive than those of 99p Stores. This is borne out by the results of internal customer surveys undertaken by Poundland, which show that it has a superior offer in the eyes of customers. For example, Figure 21 below shows that frequent customers of both Poundland and 99p Stores rate Poundland as being superior across a large number of dimensions, including product quality, store environment and choice of products.

Figure 21: Survey rating Poundland and 99p Stores among frequent customers¹⁴²

[☒]

- 6.10 As a result of customers preferring the Poundland offer, the merger will significantly increase consumer surplus for current and potential 99p Stores' customers. In particular, Poundland's ability to achieve a considerably higher sales density than 99p Stores on a like-for-like basis suggests that introducing Poundland's retail proposition at existing 99p Stores' sites will increase customer demand at these sites, and thereby increase consumer surplus.
- 6.11 To demonstrate this, Frontier Economics has explored the impact of a change in sales density on the consumer surplus at the acquired stores, using readily available and verifiable information on sales densities and the Parties' variable margins. Frontier Economics estimates that consumer surplus will increase by [☒] as a result of the change in sales density, which amounts to a [☒] increase over 99p Stores' pre-merger consumer surplus. Full details of these calculations are contained in the Annex. The increase in consumer surplus follows directly from the observation that like-for-like sales densities are higher in Poundland stores.
- 6.12 Sensitivity tests suggest that this approach is conservative and robust to different assumptions. In addition, we note that 99p Stores' customers will benefit from this additional consumer surplus in every year following the merger. Moreover, we estimate that 99p Stores would be required to decrease prices significantly – [☒] – to generate customer benefits equivalent to this increase in consumer surplus following the merger.
- 6.13 These benefits are merger-specific, as if 99p Stores had been able to replicate the success of Poundland's offer it would have done so already. They are verifiable, as they follow directly from the indisputable fact that Poundland's sales densities are higher than those of 99p Stores, and that Poundland's plans to convert the 99p Stores are undisputed and contained in internal documents and public statements ([☒]). Finally, they are timely, as the conversion process will start immediately following clearance.

¹⁴² See Issues Statement Presentation, slide 87. Source: Poundland internal research.

The merger will unlock significant buying benefits through terms harmonisation and greater, combined, buying power

- 6.14 Terms harmonisation and increased purchasing efficiency, resulting from the merger, will lead to buying benefits which will allow Poundland to further enhance its value offer to consumers.
- 6.15 KPMG estimates that terms harmonisation will allow the combined entity to achieve improved buying terms:
- (a) [§]:
 - (i) [§]; and
 - (ii) [§].
 - (b) [§].¹⁴³
- 6.16 In its due diligence work carried out to assess the transaction, KPMG estimated that these benefits would result in savings of [§] per year. Poundland anticipated that such cost savings will be re-invested into the Poundland offer to the benefit of its customers, as has been its consistent practice over many years. As a business which does not advertise, Poundland's strategy for attracting new customers and retaining existing customers is focused on re-investment in the value of its offering. [§].¹⁴⁴
- 6.17 Again, these benefits are merger specific, as without the merger the parties would not know the different terms on which they buy (and indeed the details of the terms differences remain confidential and will do until merger clearance is received). They are verifiable, as they are contained in due diligence work carried out by a third party. And they are timely – [§].

The creation of a stronger competitor to the UK's largest retailers.

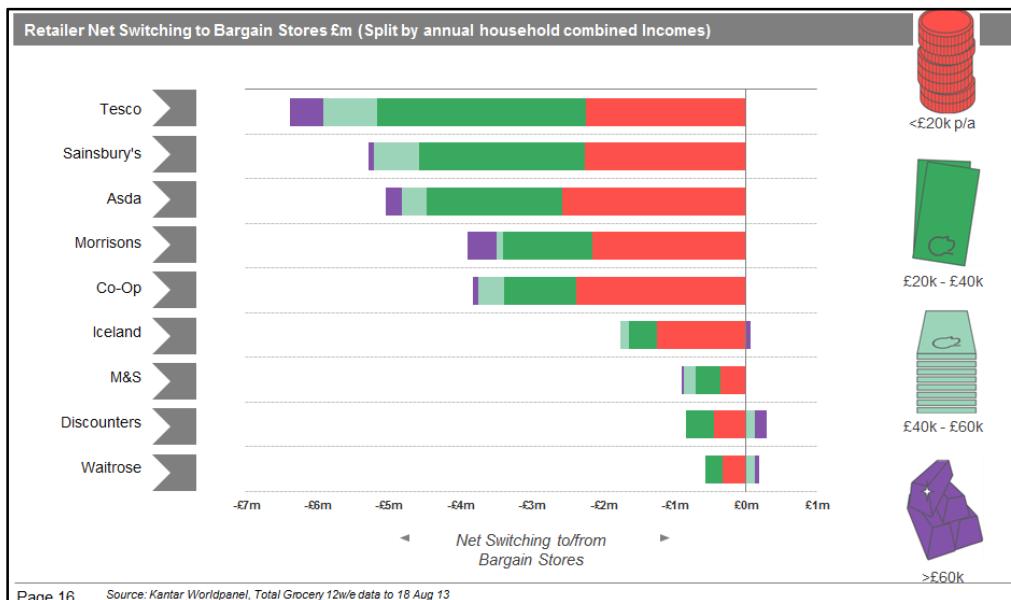
- 6.18 The evidence provided during Phase I clearly demonstrates that Poundland is more of a competitive force on the High Street than 99p Stores. For example, Poundland:
- (a) achieves a higher sales density (see above);
 - (b) is more innovative in relation to its product ranges;
 - (c) consistently offers greater value; and
 - (d) invests more in its stores and staff.
- 6.19 Customer survey evidence suggests that Poundland imposes a significantly greater competitive constraint on supermarkets and other retailers than 99p Stores. Diversion ratios from Poundland to supermarkets are greater than from 99p Stores to supermarkets. This suggests that Poundland is a more credible alternative to supermarkets than 99p Stores (assuming that diversion ratios are symmetric, or at least broadly similar, in both directions).

¹⁴³ [§].

¹⁴⁴ [§].

- 6.20 The competitiveness of Poundland has resulted in customers switching away from supermarkets – this is a pattern that has been seen across the industry (see Figure 22 below).

Figure 22: Net switching away from supermarkets¹⁴⁵



- 6.21 In an attempt to counter this switching, supermarkets and discounters have responded by launching a series of their own initiatives to try and win back customer share from Poundland and other VGMs. For example Tesco have launched an in-store discount concept “*Tesco Brand Outlet: All your favourite brands for a pound or less*” and “*Poundshop*”.¹⁴⁶ Similarly Asda have launched price cuts with promotional materials advertising “*Over 7000 items now £1 each or less*”.¹⁴⁷
- 6.22 By having an enlarged footprint – and a presence on more High Streets in more local areas – the competitive constraint imposed by Poundland on other retailers will further increase. This constraint is greater than that which would prevail in the counterfactual, [☒].¹⁴⁸
- 6.23 Again these benefits are merger-specific, timely and verifiable, for the same reasons as for the increase in consumer surplus, since they arise primarily from the introduction of a better offer into the stores of 99p Stores.

¹⁴⁵ Source: Kantar Worldpanel, Total Grocery 12 weeks to 18 August 2013.

¹⁴⁶ See Merger Notice, Figure 12 which also shows Tesco’s website branded as “£SHOP”.

¹⁴⁷ *Ibid.*

¹⁴⁸ One could consider this effect as resulting from a repositioning of the 99p Stores closer to supermarkets, in the sense of reducing the differentiation between them in the eyes of customers. Any reduction in differentiation in the market will naturally drive rivalry.

7. Conclusion

- 7.1 The CMA is an evidence-based authority. At Phase II, the CMA must assess the relative strength of the evidence before it before reaching a conclusion on whether a merger will, on the balance of probabilities, lead to an SLC.
- 7.2 In this case, the evidence points squarely in one direction. The Transaction will increase – not weaken – competition in an already highly-competitive sector. It will contribute to crystallising the structural shift towards greater value for consumers from all backgrounds. It will give more consumers access to Poundland’s superior offering.
- 7.3 The Transaction is pro-competitive and will not result in a substantial lessening of competition on any basis whatsoever.

ANNEX 1: OVERVIEW OF EVIDENCE SUBMITTED TO THE CMA

[§§]

ANNEX 2: LIST OF VGM AND DISCOUNTER STORE OPENINGS SINCE 9 APRIL 2015

Competitor identity	Location	Postcode	Opening Date	Data source
Poundworld	Brighton	BN1 4LB	21st May	Twitter
	Lichfield	WS13 6JF	7th May	Twitter
	Leicester	LE1 3YD	16th April	Twitter
	Andover	SP10 1LS	26th March 2015	Twitter
	Sutton-in-ashfield	NG18 1LP	23rd April 2015	Twitter
	Dartford	DA1 1DN	9th April	Twitter
B&M	Dover - Honeywood retail park		18th July	Company website
	Bromborough - Tebay retail park		17th July	Company website
	Inverness - Telford retail park			Company website
	Lanark - Braifute retail park		11th July 2015	Company website
	Northallerton		11th July 2015	Company website
	Dumbarton		4th July 2015	Company website
	Devon - tiverton		1st July 2015	Company website
	Belfast - cregagh road		26th June 2015	Company website
	Stratford		25th June 2015	Company website
	Elgin	IV30 6WQ	20th June	Company website
	Tottenham	N17 8EY	19th June	Company website
	Scunthorpe	DN15 8JH	13th June	Company website
	Sheffield	S9 2YZ	12th June	Company website
	Wallerby	HU10 6XA	10th June	Company website
	Barrow	LA14 2NE	4th June	Company website
	Redruth	TR15 3QJ	29th May	Company website
	Towcester	NN12 6PF	28th May	Company website
	Chester	CH1 4RY	23rd May	Company website
	Wednesbury	WS10 9QY	23rd May	Company website
	Willesden	NW10 2JH	16th May	Company website
	Derby	DE23 1JD	13th May	Company website
	Birmingham (Minworth)	B76 1FG	2nd May	Company website
	Yeading	UB4 9SN	2nd May	Company website
	Bristol	BS34 5TS	2nd May	Company website
	Boston	PE21 7NN	2nd May	Company website
	Brentwood	CM14 4BX	25th April	Company website
	Swindon	SN5 7YW	24th April	Company website
	Accrington	BB5 4AH	22nd April	Company website
	Colne	BB8 8LU	18th April	Company website
	Dunstable	LU5 4JN	17th April	Company website
	Wellingborough	NN8 2EF	16th April	Company website
	Charlton	SE7 8LU	15th April	Company website
	Norwich	NR1 1WU	15th April	Company website
	Bedworth	CV12 8QD	9th April	Company website
Home Bargains	South Elmsall	WF9 2AA	13th June	Company website
	Grimsby	DN31 1NH	30th May	Company website
	Bletchley	MK1 1BN	16th May	Company website
	Warrington	WA2 8TW	9th May	Company website
	Doncaster	DN5 9TP	25th April	Company website
	Hull	HU3 4BG	18th April	Company website
	Romford	RM1 3AB	17th May 2015	Company website
	King's Lynn	PE30 2HW	31st May 2015	Company website
	Warrington	WA1 2GZ	9th May 2015	Company website
	Larkhall	ML9 1RH	18th April	Company website
Wilko	Beeston	NG9 2JG	25th June	Twitter
	Chester			Google news
	Ashton Arcades	OL6 7JE	7th May	Twitter
Aldi	Gosport	PO12 1BG	25th June	Company website
	West Carr Lane	HU7 0AF	25th June 2015	Company website
	Ewell	KT19 0BS	11th June 2015	Company website
	Norris Green	L11 1BE	24th June 2015	Company website
	Cupar	KY15 5JE	4th June 2015	Company website
	Immingham	DN40 2AA		Company website
	Westpoint	WA10 1PQ	14th May 2015	Company website
Lidl	Renfrew	PA4 8QP	14th May 2015	Company website
	Hyndburn Road	BB5 4ES	25th June 2015	Local newspaper
	Melton		4th June 2015	Local newspaper

ANNEX 3: IMPLICATIONS FOR CONSUMER SURPLUS

[]

ANNEX 4: SALES DENSITY ANALYSIS

[§§]

ANNEX 5: SAMPLE OF PHOTOGRAPHIC EVIDENCE FROM ROUTINE BENCHMARKING



TESCO
express



As supermarket giant launches new '£1 zones'... Can Tesco really beat Poundland at its own game?

Making
pounds...



... go
further

- Middle class shoppers looking for imaginative ways to stretch their budget
- So Tesco is rolling out 'pound zones' in 300 of its stores to win back cost-conscious consumers
- But will the supermarket giant be able to beat Poundland at its own game?

Lunchbox fillers

Lunchbox classics



ANNEX 6: AB BERNSTEIN REPORT – 24 JUNE 2015

UK Food Retail: Bernstein Price Idx Supports Inflection In Inflation, No Weakening
In Intensity Of Targeted Battles

[Excised]

ANNEX 7: JEFFERIES REPORT – 23 JULY 2014

Poundland: Forget About the Price Tag; Initiating with an Underperform

[Excised]

ANNEX 8: CREDIT SUISSE REPORT – 2 JULY 2015

B&M and Poundland retain their price gap

[Excised]

ANNEX 9: FIRST DEUTSCHE BANK REPORT – 23 JULY 2014

Big brands, big expansion plans

[Excised]

ANNEX 10: SECOND DEUTSCHE BANK REPORT – 23 JULY 2014

Initiation – in for a Penny

[Excised]