

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

### **Summary of hearing with Poundstretcher on 19 June 2015**

#### **Background**

1. Poundstretcher is a national multi-price point (MPP) discounter with about 400 stores across the UK. Its stores stock four main categories of goods: fast-moving consumer goods (FMCG); seasonal products; homewares and textiles; and pet food.
2. Poundstretcher said that its product range and MPP gave it a competitive advantage over other discount retailers. The MPP allowed Poundstretcher to sell conventionally sized products rather than packs that had been sized to specifically meet a £1 or 99p price point.
3. Poundstretcher said that in response to changes in the discount sector, it changed strategy last year to increase footfall to its stores by stocking a larger range of food and toiletries. Poundstretcher had been closing smaller stores and increasing its average store size to accommodate a wider range of products. Poundstretcher said that its £1 and 99p products were not sold at that price necessarily to compete with single-price point (SPP) retailers but rather when margins indicated these prices were viable and therefore a £1 item sold by Poundstretcher may be of a larger quantity than the equivalent product sold by an SPP. [REDACTED]
4. Poundstretcher's turnover had grown by about 12% since the last published results, and 6% on a like-for-like basis, having opened 17 new stores and closed 18. It considered itself to be one of the smaller operators in its marketplace currently and that there was scope for further growth in the next two to three years. [REDACTED] The size of its stores averaged 7,500 square feet, with a range of 4,000 to 25,000 square feet. As it was closing its smaller stores, the average would increase.
5. Poundstretcher's stores' operations were determined centrally by its head office. Store and regional managers might provide feedback to head office on developments in the marketplace but any changes arising to Poundstretcher's parameters would be issued on a national basis. Poundstretcher said that given the number of stores it owned, such a centrally driven policy made strong business sense. All stores stocked the same range of products, with larger stores having a wider range (eg pet food products). The FMCG range

was, however, the same across all stores. Poundstretcher said that it did sometimes vary its pricing policy across different regions and that at store level, it sometimes ran short-term promotions in response to the opening of a competitor's store in the vicinity. The same service standards were also applied across its stores.

## Competition

6. Poundstretcher saw the market as being divided into categories, with the big supermarkets in one and the discounters divided into three groups: Aldi/Lidl, the SPP retailers and the MPP retailers. It believed that customers did not, however, make a distinction between the discounters.
7. Poundstretcher's buying team performed comparative shopping to ensure that its products were competitively priced. Poundstretcher said [redacted] it typically compared prices with [a range of discount retailers].
8. Poundstretcher felt that Poundland and 99p Stores were competing at the same price points and for the same customers as each other and that they most likely tried to differentiate on their product ranges. [redacted]
9. Poundstretcher said that it did compete with Poundland and 99p Stores on a national level and that this would normally manifest itself in Poundstretcher charging the same price for like-for-like products. Poundstretcher said that it would benchmark its prices against [a range of discount retailers]. As part of this, Poundstretcher would consider whether to respond to multibuy offers carried out by the SPP. [redacted] but did not promote its products on the basis of comparative pricing with SPP retailers.
10. [redacted]

## Customer behaviour

11. Poundstretcher said that its knowledge of customer behaviour indicated that many people were cash-poor but time-rich and that this encouraged them to visit more than one retailer when shopping. It believed that such customers would buy their core grocery items from discounters and top up their shopping at a supermarket for the items they could not obtain from discounters. Poundstretcher believed that customers were attracted to its stores primarily for its prices but also for the range of goods offered, [redacted]. The average basket size for its customers was [redacted] but varied across different sizes of store.

12. [X] Poundstretcher said it was aware of shoppers who visited several shops in order to obtain the cheapest priced products available, although this would depend on the locations of the shops relative to each other.
13. [X] It felt that shoppers were becoming more price conscious and better aware of different retailers' offerings.
14. Poundstretcher said that it did not believe an average shopper differentiated between SPP retailers and MPP retailers in the same way as a retailer would. It believed shoppers generally classified all discounters as the same type of retailer.

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

15. Poundstretcher said that it had not previously considered acquiring 99p stores nor did it have any plans to move into the SPP marketplace either through acquisition or otherwise. Poundstretcher said that as an MPP retailer, it saw the SPP model as too restrictive.
16. Poundstretcher did not consider 99p Stores real estate to be of interest due to the average size of its high street stores. Some of 99p Stores' larger warehouses, of which there were around ten, would potentially be suitable for Poundstretcher dependent on rent and other factors.
17. Poundstretcher did not feel it was well placed to comment on what effect there would be on the SPP marketplace if the transaction did not go ahead. Poundstretcher thought that the presence of SPP retailers on the high street would continue.
18. Poundstretcher did not believe the merger of Poundland and 99p Stores would have a significant impact on competition in the SPP sector. Poundland would potentially benefit from increased purchasing power. Poundstretcher said that the merger might help Poundland to maintain the SPP model for a longer period than otherwise, as it would increase the willingness of branded manufacturers to produce pack sizes for the £1 price point, which had been under pressure as a result of exchange rate changes and raw material cost increases.
19. Poundstretcher thought that it was likely that Poundland would carry out selective disposals of existing Poundland and 99p Stores where they were close to each other.

## Entry and expansion

20. Poundstretcher planned to expand in the next few years and [✂] the location of new store openings would be dependent on location, rents and rates and whether Poundstretcher considered them viable. Its new openings could be either on high streets or in retail parks. [✂]
21. Poundstretcher said that a number of different factors influenced its decision to choose a new store location. Factors such as the presence of a competitor or driver of footfall, would normally influence the projected sales for a site. [✂]
22. Poundstretcher said that better prices could be obtained from suppliers by bulk buying but that prices were very dependent on the skills of the buying team and that, generally, a larger chain of stores would obtain better prices than a small one. [✂]
23. Poundstretcher was not aware of any confirmed new entrants into either the SPP or MPP retail sector. It was aware of the rumoured entry of a retailer owned by Mike Ashley who had recently opened a store in Scotland. Poundstretcher thought that this competitor was operating more like an SPP retailer although it had no detailed knowledge.
24. Poundstretcher felt it was more likely that new entrants into the SPP retail sector would seek to buy existing companies rather than set up entirely new operations due to the high level of existing competition.
25. Poundstretcher said that, in its opinion, for a new entrant to the SPP retail sector to be viable it would likely need 200 stores or more. Only at this scale would it be able to maintain an efficient supply and have branded manufacturers interested in supplying it.