

# **Anticipated acquisition by Poundland Group plc of 99p Stores Limited**

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## Terms of reference and conduct of the inquiry

### Terms of reference

1. On 17 April 2015, the CMA referred the anticipated acquisition by Poundland Group plc of 99p Stores Ltd for an in-depth (phase 2) merger investigation:
  1. In exercise of its duty under section 33(1) of the Enterprise Act 2002 (**the Act**) the Competition and Markets Authority (**CMA**) believes that it is or may be the case that:
    - (a) arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation in that:
      - (i) enterprises carried on by Poundland Group plc will cease to be distinct from enterprises carried on by 99p Stores Limited (together **the Parties**); and
      - (ii) the condition specified in section 23(1)(b) of the Act is satisfied, and
    - (b) the creation of that situation may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom (**the UK**) for goods or services, including the retail supply of general merchandise by single price point retailers and value general merchandise retailers in:
      - (i) 80 local areas where both the Parties operate within less than one mile from each other; and
      - (ii) 12 additional local areas where the Parties' pipeline stores will overlap with an existing store of the other party.
  2. Therefore, in exercise of its duty under section 33(1) of the Act, the CMA hereby makes a reference to its chair for the constitution of a group under Schedule 4 of the Enterprise and Regulatory Reform Act 2013 in order that the group may investigate and report, within a period ending on 2 October 2015, on the following questions in accordance with section 36(1) of the Act:

- (a) whether arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation; and
- (b) if so, whether the creation of that situation may be expected to result in a substantial lessening of competition within any market or markets in the UK for goods or services.

**Sheldon Mills**  
**Senior Director, Mergers Group**  
**Competition and Markets Authority**  
**17 April 2015**

### **Conduct of our inquiry**

2. On the day of the reference, the investigation was [suspended](#) at the request of Poundland for a period of three weeks, and resumed on 8 May 2015.<sup>1</sup>
3. We published [biographies on the members of the inquiry group](#) conducting the inquiry on 14 May 2015, and the [administrative timetable](#) for the inquiry was published on the CMA's webpages on 21 May 2015.
4. We invited a wide range of interested parties to comment on the proposed acquisition. These included competitors and customers of Poundland and 99p. Evidence was obtained from these third parties through telephone hearings, through other telephone contact, and through written requests. Summaries of our hearings with third parties are published on our [webpages](#). We also commissioned a [customer exit survey](#).
5. On 3 June 2015, members of the inquiry group, accompanied by staff, visited Poundland's and 99p's locations in Hemel Hempstead. They were also given presentations there, and a hearing was held with 99p.
6. On 25 June 2015, we published an [issues statement](#) on our webpages, setting out the main issues we were likely to consider in reaching our conclusions in this inquiry.
7. We received written evidence from Poundland. A [non-confidential version of its main submission](#) is on our webpages. Poundland also provided a [response](#) to the issues statement. On 27 July 2015, we held a hearing separately with each of Poundland and 99p.

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<sup>1</sup> The investigation was suspended by the CMA pursuant to section 39(8A) of the Act.

8. In the course of our inquiry, we sent to Poundland and 99p, as well as third parties, some working papers and extracts from those papers for comment.
9. On 25 August 2015, we published on our webpages a [summary](#) of our provisional findings report and a [notice of provisional findings](#). The full [provisional findings](#) report, along with its appendices and glossary, were published on 27 August 2015.
10. A non-confidential version of the final report was published on the CMA's [webpages on 18 September 2015](#).
11. We would like to thank all those who assisted in our inquiry.

## 99p financial information

- Appendix B provides details of the financial performance of 99p over the period FY11 to FY15.

### Overview of financial performance FY11 to FY15

- Table 1 provides a summary of 99p's financial information as set out in its statutory accounts for the four year period FY11 to FY14.<sup>1</sup> [X]<sup>2</sup> [X]
- The table shows that 99p's revenue increased in each financial year. However, while its gross margin stayed above 20%, its EBITDA and EBIT margins fell significantly between FY12 and FY13, with EBIT losses recorded in both FY13 and FY14.

**Table 1: Summary of financial information for the period FY11 to FY14**

	<i>£000</i>			
	<i>FY11</i>	<i>FY12</i>	<i>FY13</i>	<i>FY14</i>
Turnover	231,007	270,222	341,466	370,441
Gross profit	48,230	58,052	70,648	79,597
EBITDA	9,807	10,907	4,958	5,515
EBIT	6,520	7,337	(126)	(213)
Profit before tax	6,337	7,189	(584)	(734)
				%
Gross profit margin	20.9	21.5	20.7	21.5
EBITDA margin	4.3	4.0	1.4	1.5
EBIT margin	2.8	2.7	n/a	n/a

Source: Statutory accounts.

- Table 2 provides equivalent information for FY13 to FY15 as set out in the management accounts of 99p.<sup>3</sup> This excludes the financial information of the two Euro 50 stores it operates in Ireland.<sup>4</sup>

<sup>1</sup> 99p's statutory accounts report on the financial performance of all of its stores, including the two Euro 50 stores it operates in Ireland as at the end of FY14.

<sup>2</sup> FY15 accounts have to be filed by 1 November 2015.

<sup>3</sup> The different treatment of income and expenditure items between the statutory accounts and management accounts mean that it is not possible directly to compare the two sources of information.

<sup>4</sup> [X].

**Table 2: Summary of 99p financial information for the period from FY13 to FY15**

	£000		
	FY13	FY14	FY15
Turnover	[X]	[X]	[X]
Gross Profit	[X]	[X]	[X]
Adjusted EBITDA*	[X]	[X]	[X]
EBITDA	[X]	[X]	[X]
EBIT	[X]	[X]	[X]
Losses before tax	[X]	[X]	[X]
			%
Gross profit margin	[X]	[X]	[X]
Adjusted EBITDA margin	[X]	[X]	[X]
EBIT margin	[X]	[X]	[X]

Source: 99p  
\*[X]

5. In FY16, 99p's financial performance [X]. Table 3 shows the financial performance of 99p for the first three months of FY16 (February to April 2015).<sup>5</sup> Sales were [X] the prior year; [X]. Gross margins [X], which accounted for [X]: head office, warehouse and transport costs [X], which was an [X] from the prior year, [X].

**Table 3: First three months outturn for FY16**

	£000			
[X]	P3 FY15	P3 FY16	YTD FY15	YTD FY16
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]				%
[X]			[X]	[X]
[X]			[X]	[X]
[X]			[X]	[X]

Source: 99p.

6. [X]
7. In the following sections of the appendix, we review the sales performance and changes to 99p's cost base, [X].

### Three-year plan

8. 99p appointed a new Chief Operating Officer (COO) in November 2013 and a new Chief Financial Officer (CFO) in December 2014. It also changed most of its heads of existing departments and introduced new departments such as

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<sup>5</sup> 99p has provided complete management accounts for the first three periods of FY16.

Space and Range Management and Loss Prevention as part of the three-year plan. New heads and staff were recruited for these new departments.

9. The three-year plan was approved by the board in April 2014. The stated goal of the three-year plan was to put in place a solid business structure to enable the business to float or the shareholders to exit through a sale in three years. The three-year plan contained a 'root and branch' analysis of the business and included:
  - (a) achieving consistency of store environment and service delivery across all 99p's stores;
  - (b) improving the buying function;
  - (c) changing the warehouse and distribution function to meet the needs of the business given that it had outgrown its existing functions;
  - (d) IT infrastructure, in particular merchandising and EPOS;
  - (e) HR review;
  - (f) space and range planning; and
  - (g) marketing.
10. The three-year plan was to be implemented incrementally. Changes and/or initiatives that were seen as being able to generate returns quickly ('low-hanging fruit') were to be implemented first. These included changes to merchandising and store refits.
11. A trial of new merchandising in the Leeds store achieved [X] like-for-like sales [X]. [X] stores were refitted at a cost of £[X] million during the period between June/July 2014 and November 2014. These refitted stores delivered an increase in sales of [X]. [X]
12. Changes were also made to deliver greater consistency across its store portfolio. These included: a move to a five-day working week from a six-day working week; improvement of facilities such as canteens and store toilets; introduction of changes to performance appraisals and recognition of staff by praising well-performing employees; installation of new LED lighting for the [X]; and the implementation of minimum store fabric standards.
13. In August 2014, 99p implemented a 'pick-by-store' inventory system into its distribution centre. Management estimated that it would build a [X]% improvement in sales, by having improved levels of stock and the correct stock items in store. In addition, it would significantly reduce labour costs. This

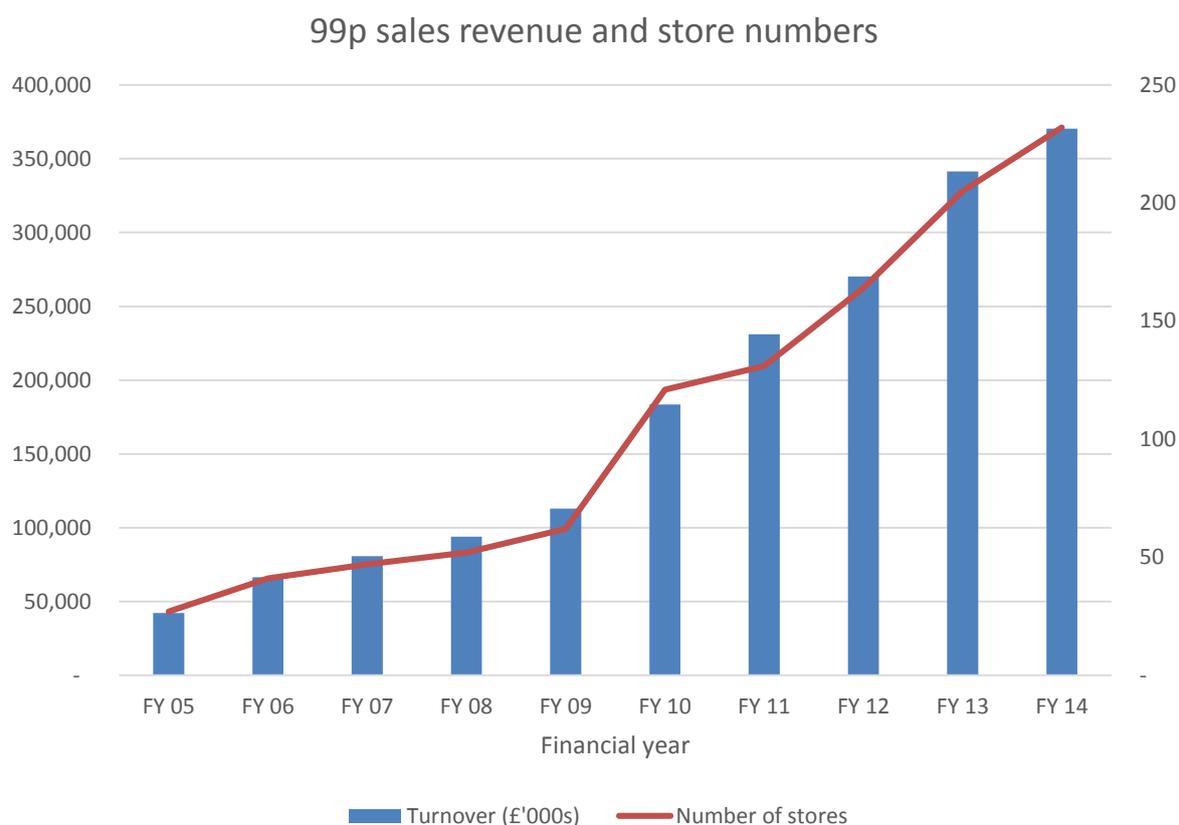
in turn would lead to a positive inflow of approximately [X] EBITDA during FY15. [X]

14. [X]

## Sales revenue

15. Figure 1 shows 99p's sales revenue for the ten years ended FY14. It shows year-on-year sales growth throughout the period.

**Figure 1: 99p sales revenue for the period from FY05 to FY14**



Source: 99p Statutory accounts.

16. Sales revenue [X] in FY15 from £366.1 million to [X]. In the first three periods of FY16 [X].

## Breakdown of sales growth

17. 99p's sales revenue is made up of:

- (a) revenue from stores that have been open for more than one year – measured by a comparison of current to prior year revenue (like-for-like sales); and
- (b) revenue for new stores opened in the year and prior year stores.

18. Table shows [X] sales revenue of £[X] million from FY13 to FY14, [X]. New stores opened in FY14, along with the full year effect of stores that were opened in FY13, added £[X] million of revenue in FY14. [X] In the 12 months to August 2014 (LTM15), new stores added £[X] million of sales revenue, [X].

**Table 4: Breakdown of sales performance for period from FY14 to LTM 15**

	£000	
	FY14	LTM 15*
Prior year sales revenue	[X]	[X]
New stores†	[X]	[X]
Closed stores	[X]	[X]
LFL sales	[X]	[X]
Sales revenue	[X]	[X]*

Source: 99p.

\*This figure is the total revenue for the 12 months up to August 2014 (LTM 15). [X]

†FY14 refers to February 2013 to January 2014. LTM 15 refers to September 2013 to August 2014.

‡£[X] million of revenue from the [X] stores opened during FY14; and £[X] million from the full year effect of the [X] stores that 99p had opened in the prior year (FY13).

### *Like-for-like sales*

19. Figure 2 shows like-for-like sales on a monthly basis from February 2011 to April 2015.<sup>6</sup> [X] Figure 1

**Figure 2: Like-for-like sales from FY12 to FY15**

[X]

Source: 99p.

20. Figure 2 shows that like-for-like sales [X]. We note, though, [X].

21. [X]

### *New stores*

22. Table shows the history of store openings for 99p from 2001 to 2015. The reduction in new store revenue (Table ) reflects the decrease in the number of new stores opened by 99p.

<sup>6</sup> April 2015 is the last month for which like-for-like sales data has been provided by 99p.

**Table 5: History of store openings**

Year opened (calendar year)	Number of stores
2001-2003	18
2004-2006	29
2007-2009*	74
2010-2012†	84
2013	28
2014	16
2015	1
	250

Source: 99p.

\*99p obtained a number of the old Woolworths stores when Woolworths went into receivership in 2008.

†Launch of the Family Bargains format.

‡[redacted]

§This excludes the two Euro 50 stores which 99p operates in Ireland.

### Store performance by fascia

23. Table shows store performance by fascia for FY13 and FY14 [redacted]. It shows that 99p fascia stores [redacted]. Average transaction values [redacted] between FY13 and FY14, but [redacted]. In contrast, the [redacted].

**Table 6: Store performance by store fascia**

Fascia	FY13				FY14			
	Total net sales	Branch contribution	BC margin	ATV	Total net sales	Branch contribution	BC margin	ATV
99p	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
99p Plus†	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Family Bargains	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Not provided*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: 99p.

\*'Not provided' refers to a dummy store within the management account.

†99p Plus was introduced in June 2014

### Overview of costs

24. Overhead costs have been split into three cost centres in 99p's management accounts: branch, distribution and warehouse and head office. Table provides an overview of the cost base for the last three years.

**Table 7: Overview of cost base for the period FY13 to FY15**

	£000		
	FY13	FY14	FY15
Branch costs	[redacted]	[redacted]	[redacted]
Warehouse and distribution costs	[redacted]	[redacted]	[redacted]
Head office costs	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]

Source: 99p.

25. Table shows that costs [redacted].

26. Branch costs as a percentage of net sales [X].
27. Head office costs [X]. Head office costs as a percentage of net sales [X].
28. 99p hired [X]. Warehouse staff numbers [X]. Warehouse and distribution costs as percentage of net sales [X].
29. 99p undertook some cost saving initiatives [X]. There was a specific emphasis on reducing staff costs, [X], through increased training and accountability of store managers. [X]

## Counterfactual

### Potential alternative purchasers of 99p

1. This appendix sets out the responses we received from 99p in relation to its discussions with potential acquirers between 2010 and 2014, and third parties in relation to the potential acquisition of 99p in the absence of the transaction with Poundland.

### *99p's discussions with potential acquirers in the period up to the Poundland transaction (2010 to 2014)*

2. [REDACTED]
3. [REDACTED]
4. [REDACTED]
5. [REDACTED]
6. [REDACTED] told us that it was interested in the transaction and had made a request for information. But after the meeting on 12 February, aside from an exchange of a few emails, [REDACTED] did not have any further substantive discussion with 99p. These talks did not progress and no confidential information was exchanged. [REDACTED]<sup>1</sup>

### *Responses from potential acquirers*

7. [REDACTED] told us that it had heard rumours in the early part of 2015 (from suppliers in the Far East) that 99p was looking to sell its entire business and there had been discussions with Poundland. [REDACTED]
8. [REDACTED] told 99p that it was withdrawing because:
  - (a) it would not have been able to deliver the transaction within the timeframe; and
  - (b) the 99p stores were too small.
9. [REDACTED]

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<sup>1</sup> [REDACTED]

10. [X] said that it had a good understanding of 99p's business. It considered that the problems faced by 99p were of its own making; the company had expanded too quickly and had failed to invest properly in its systems, distribution networks, IT and in the management team. [X] was confident that these sort of issues would have been rectified under its control. [X] did not consider that 99p's financial performance was an obstacle to the transaction.
11. [X]
12. [X] told us that it did not believe that there would have been many other alternative purchasers of 99p, especially as the company was being sold in its entirety. It would have cost too much for entrepreneurs or individuals to purchase outright. [X] also submitted that 99p would not have been an attractive option for any private equity backed purchase as the company was performing poorly. Investment would have been needed to turn the company's fortunes around, such as to upgrade the company's IT systems or reduce distribution costs, all of which would have deterred banks from funding such a purchase.
13. The evidence we received from the other UK large SPP and VGM retailers shows that none of them would have been interested in acquiring 99p during 2014 and the early part of 2015:
  - (a) Poundstretcher told us that it had not previously considered acquiring 99p, nor did it have any plans to move into the SPP retail sector, either through acquisition or otherwise.<sup>2</sup>
  - (b) TJ Morris (t/a Home Bargains) told us that it had not considered buying 99p.<sup>3</sup>
  - (c) [X]
  - (d) Wilko told us that it had not considered buying 99p or getting involved in the SPP retail sector, either organically or through acquisition.<sup>4</sup>
14. The majority shareholder of another value retailer told us that it was aware that 99p was looking for new investors. The shareholder told us that 99p was not an 'impossible to turn down' sort of asset; it was a company that was perceived to be [X] that had not performed well in comparison to its nearest competitors. But at the same time, it was a company in an interesting market, and the shareholder would have looked at the opportunity like it would have

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<sup>2</sup> Summary of hearing with Poundstretcher, 19 June 2015.

<sup>3</sup> Summary of hearing with TJ Morris, 23 June 2015.

<sup>4</sup> Summary of hearing with Wilko, 2 July 2015.

done if other grocers, VGM retailers and branches of convenience stores had become available at that time.

15. [REDACTED]
16. [REDACTED]<sup>5</sup> [REDACTED]
17. [REDACTED] told us that it made a lot of investments in the retail sector, particularly in the discount market (it had an investment in [REDACTED]). It also invested in turnaround opportunities. It was interested in the proposal from 99p [REDACTED] and it had subsequently bid to invest in the Poundworld business against TPG and other bidders.
18. [REDACTED] We received evidence from another four private equity firms:
  - (a) CCMP told us that the value retail sector was attractive to it because it grew faster than consumer spending in general. However, it would not have been interested in 99p as it was not large enough for its funds' size threshold, and its market position was not as attractive as that of Poundland and Poundworld.
  - (b) Endless also considered the value retail sector attractive, and it perceived 99p as an interesting opportunity in principle as it was a well-established business with scale in an attractive sector. It was, however, not aware of its financial performance.
  - (c) Morgan Stanley (in its capacity as adviser to certain private equity funds) told us that it had considered investing in the retail value sector in the past. It said that it may have been interested to review the business, but it was not able to say whether it would have been interested to invest in the company, having not done any diligence or met the management team.
  - (d) Apex Partners told us that it viewed the retail value sector as an attractive sector to invest in and it has looked to invest in it previously. It said that it would not have been interested in 99p as a standalone investment as it was too small for the funds it advised. It might, though, have considered it as a follow-on investment if it had acquired another UK value retail business and there were synergy benefits.

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<sup>5</sup> [REDACTED]

## Customer survey

### Overview

1. This appendix sets out the methodology used for the CMA survey carried out as part of the Poundland/99p phase 2 merger inquiry. It compares the methodology and results of the CMA survey with the methodology and results of the online survey carried out by Poundland during phase 1 of the inquiry (referred to in this report as 'Poundland's survey').<sup>1</sup>

### CMA survey methodology

2. The CMA survey, which used a face-to-face exit survey methodology, surveyed customers of Poundland and 99p stores/99p Plus stores in 15 overlap areas. An 'overlap area' was defined as a geographical area in which branches of Poundland and 99p are within a one-mile radius of each other. Around 30% of Poundland's estate overlaps with 99p's, and around 64% of 99p's estate overlaps with Poundland's. In this inquiry, time and budget constraints precluded a survey covering all overlap areas. Therefore, our selection of 15 areas was made from the 80 areas that had been identified as presenting a realistic prospect of an SLC during phase 1, and was designed to capture as much variation in local market structure as possible (ie the selection was deliberately neither random nor representative). We also sought to stratify the selection across different bands of diversion ratios derived from Poundland's survey. We took the diversion ratio for each area to be the higher of Poundland to 99p or 99p to Poundland. We then divided the areas into five equally sized bands by diversion ratio before selecting three areas from each band to meet the following criteria when combined:
  - (a) Exactly two areas where one of the Parties has more than one store.
  - (b) At least three areas with Poundworld.
  - (c) At least two areas with Sam 99p.
  - (d) At least three areas with greater than the median number of VGM retailers (ie >1).

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<sup>1</sup> Poundland conducted a telephone validation survey of 402 Poundland/99p customers.

- (e) At least three areas with fewer than the median number of VGM retailers (ie <1).
- (f) At least three areas with greater than the median number of supermarkets (ie >2).
- (g) At least three with fewer than median number of supermarkets (ie <2).
- (h) Each fascia for VGM retailers and supermarkets is represented in at least one area.
- (i) At least one area where there is a convenience supermarket fascia and no corresponding larger supermarket (and vice versa).
- (j) At least two areas with 0.5 miles or greater distance between the Parties' stores.
- (k) Sufficient variation between urban (principally London) and non-urban areas.
- (l) Where more than one area met the other criteria, areas that improved the geographic spread of the sample overall.<sup>2</sup>

3. The objectives of the survey were to:

- (a) understand some of the characteristics of Poundland and 99p customers, such as their demographic information;
- (b) identify the appropriate area over which competition takes place between relevant retailers by understanding the time customers took to travel to the store, where they travelled from and whether visiting either Poundland or 99p was the main reason for their journey;
- (c) understand the shopping behaviour of Poundland and 99p customers, such as how often they use the stores and their reasons for shopping there;

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<sup>2</sup> Poundland submitted that the sampling approach taken (in particular the focus on overlap areas identified in phase 1 as having a realistic prospect of an SLC) means that the CMA survey findings could not be used 'to inform market definition or closeness of competition across all local areas (or at the national level).' We agree that the CMA survey results cannot be used to estimate directly the diversion ratios in non-survey areas. We acknowledge, too, that diversion ratios will be affected by specific local factors, but consider that the results from individual areas provide an indication of the closeness of competition between a particular retailer and the Parties across all areas, and have therefore taken this into account alongside all of the other evidence on closeness of competition considered in this inquiry.

- (d) test the validity of Poundland's survey, specifically the extent to which diversion ratios estimated from Poundland's survey may suffer from bias; and
  - (e) measure the extent and nature of diversion from Poundland or 99p in the event that the branch visited and all the retailer's other branches were closed for several months for refurbishment.
4. Fieldwork was carried out between 12 June and 1 July 2015 by Accent.
  5. The research comprised a short (five to ten minutes), interviewer-administered survey conducted at 32 locations (15 Poundland stores, 15 99p stores and two 99p Plus stores).<sup>3</sup> The questionnaire was developed by the CMA, with comments on its content invited from both Parties before finalisation. A copy of the full questionnaire may be found in the Annex to this appendix.
  6. Interviewers conducted seven days of interviewing per location, with each interviewing shift lasting six hours. The start times of shifts were staggered (eg 9am-3pm, 1pm-7pm) to reflect the different store opening times as closely as possible and to ensure that a genuine cross-section of customers (including those who shop earlier or later in the day compared with the majority of shoppers) were included.
  7. Interviewers were not given any discretion over respondent selection; they were instructed to select every third person exiting the store (every second person during quiet times) after completing the previous interview or recording an out-of-scope (ineligible to participate) or refusal.
  8. Participation in the survey was not incentivised. In total, 5,459 interviews were completed (with a minimum of 150 per location). The survey response rate was 32%.

### ***Diversion questions***

9. The diversion questions in this survey asked respondents about their visit to the Poundland or 99p branch they had exited immediately prior to interview:
  - (a) Those (i) whose only or main reason for making a trip that day had been to visit Poundland or 99p; or (ii) whose visit to Poundland or 99p was not the main reason for making a trip that day but whose visit was pre-planned were asked about the action they would have taken if they had

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<sup>3</sup> Interviewers used handheld tablets to record respondents' answers, a process known as computer-assisted personal interviewing or CAPI.

known before setting out that it and all the retailer's other branches were closed for several months for refurbishment.

(b) Those whose visit to Poundland or 99p was not the main reason for making a trip that day and whose visit was not pre-planned were asked about the action they would have taken if they had found that it and all the retailer's other branches were closed for several months for refurbishment.

10. In each case, response options offered were:

(a) (for those who had bought one item) buy the item somewhere else; not buy the item; don't know; and

(b) (for those who had bought two or more items) buy all the items somewhere else; buy some of the items somewhere else; not buy the items; don't know.

11. Respondents who said they would buy (some of) the item(s) somewhere else were then asked to say where they would buy the item(s) instead. This question was not prompted – respondents could name any retailer(s) they chose. Those who had purchased two or more items and would still purchase two or more items could name two or more retailers.

### **Survey quality**

12. As with all survey-based methods, there are a number of caveats that need to be borne in mind when considering the results of the survey:

(a) There is potential for some bias linked to coverage, with interviewing shifts not covering the first 30 minutes of trading in ten locations, the first 60 minutes of trading in eight locations and the first 90 minutes of trading in one location (this predominantly affected Poundland sites). Likewise, the last 60 minutes of trading were not covered in three locations (all 99p sites). Given the possibility that customers who shop at these times may differ demographically and/or by shopping pattern (number of items purchased/level of spend) from those who shop during core opening hours, then some customer types may be under-represented in the dataset.

(b) Similarly, Saturday customers may be under-represented, and Sunday customers over-represented, in the dataset when daily sales data provided by the Parties are taken into account (see Table 1 below).

Cumulatively, however, weekend shoppers (those who shop on Saturday or Sunday) are a little over-represented.<sup>4</sup>

**Table 1: Sales by day (national aggregate) versus interviews by day**

	Poundland*		99p†		%
	Sales	Interviews	Sales	Interviews	
Monday	[REDACTED]	14	[REDACTED]	14	
Tuesday	[REDACTED]	15	[REDACTED]	15	
Wednesday	[REDACTED]	14	[REDACTED]	15	
Thursday	[REDACTED]	15	[REDACTED]	15	
Friday	[REDACTED]	14	[REDACTED]	14	
Saturday	[REDACTED]	15	[REDACTED]	14	
Sunday	[REDACTED]	14	[REDACTED]	14	

Source: [REDACTED]

\*Poundland figures based on FY14/15 UK gross sales for stores trading for entirety of the financial period.

†99p figures based on 1.2.2015-2.5.2015 UK sales transactions.

(c) As part of our Quality Assurance process, we conducted spot-checks of nine interviewers (17% of all interviewers working on the project and 4% of all interviewing shifts). Of these, five spot-checks were conducted during days one to five of fieldwork (from a total of 20). We identified some issues of concern, specifically:

- (i) three interviewers were not maintaining a complete paper record of refusals to take part in the survey;
- (ii) three interviewers were not working their allotted interviewing hours/interviewing in every hour of their shift;
- (iii) two interviewers did not read out one or more of the following questions verbatim in at least one of the interviews observed: Q2, Q3c, Q3d, Q6;
- (iv) two interviewers prompted the person interviewed at Q3f/Q3fb in at least one of the interviews observed; and
- (v) one interviewer did not always select every third person for interview.

The interviewers concerned were corrected in real-time (during/at the end of the affected interviews) and there was a full re-brief of all Accent's regional supervisors (cascaded in turn to all interviewers) on days five and six of fieldwork. The project timetable did not permit the affected

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<sup>4</sup> Taking (a) and (b) together, Poundland has submitted that the effect of this potential coverage bias has been to 'over-index the "time-rich" (eg retired people) and under-index the "time-poor" (ie working customers)' in the achieved sample for the CMA survey. A fuller discussion of the CMA survey sample's representativeness may be found in paragraph (e) below.

interviews – which we assess to be less than 10% of all interviews conducted – to be repeated.

Following the full re-brief, four further CMA spot-checks revealed no repeat of any of the issues outlined above or any other issues. Overall, we assess the quality of interviewing to be adequate.

- (d) The response rate to the survey overall was 32%, with the number of responses per location ranging between 151 and 198, providing a good sample base for analysis at the level of individual branches (although we acknowledge that the effective sample size per branch will be lower after respondents have been weighted by spend for diversion ratio estimates). The response rate is high relative to most exit surveys commissioned by the CMA, but there is still the potential for non-response bias.<sup>5</sup>
- (e) There is no way of reliably benchmarking the demographic profile of Poundland/99p customers, so it is not possible to definitively assess the CMA survey sample's representativeness. However, Poundland has submitted that the CMA survey demographic profile differs in some key respects from that which it regards as representative of its customer base. In the following discussion, it is worth noting that comparisons between the CMA survey findings and Poundland's survey or other Poundland/99p customer research are not like-for-like,<sup>6</sup> and so should be regarded as indicative only:
  - (i) **Gender** – as can be seen from Table 2 below, there is a degree of variability in evidence relating to the male/female split amongst the Parties' customers. During the Party hearings, Poundland reported that 'In terms of gender profile, it would be [redacted], in line with [redacted]'s 2011 findings for Poundland customers who shop once a week, with 2013 [redacted] for Poundland customers who shop regularly, and with Poundland's survey. [redacted] In this context, there is a possibility that male customers are under-represented to some extent, and female customers over-represented, in the CMA survey dataset, particularly for Poundland shoppers.

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<sup>5</sup> Non-response bias occurs when people who responded to the survey are not representative of the sample as a whole in such a way that this has an impact on some or all of the survey results, ie where the pattern of responses from those who answered the survey is different from that which would have been obtained from those who did not.

<sup>6</sup> Different project timings, methodologies, research objectives/survey content and, in particular, audience sub-group definitions mean that only cautious comparisons should be drawn between the respective datasets.

**Table 2: Gender**

	%	
	Male	Female
<i>Poundland/99p research</i>		
[redacted]*		
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]†		
[redacted]	[redacted]	[redacted]
[redacted]‡		
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]§	[redacted]	[redacted]
[redacted]¶	[redacted]	[redacted]
[redacted]#	[redacted]	[redacted]
<i>CMA survey~</i>		
All customers	31	69
Poundland customers	29	71
99p customers	33	67

Source: Poundland, 99p, CMA survey

\*[redacted] (exit survey).

†[redacted] (online panel research).

‡[redacted] (online panel research).

§[redacted] (online).

¶[redacted] (exit survey).

#[redacted] (online).

~n=5,459 (exit survey).

- (ii) **Socio-economic group**<sup>7</sup> – Poundland has submitted that the C1 group of respondents in the CMA survey dataset ‘is implausibly lower (about half the size) than the level Poundland considers to be true of its population’.<sup>8</sup> It is the case that IGD’s research with discount shoppers, and research for Poundland by [redacted], indicates that around [redacted] SPP/discount customers are C1s. In contrast, Table 3 below shows that – at [redacted]% and 15% respectively – both Poundland’s survey and the CMA survey appear to under-represent C1s. One

<sup>7</sup> Socio-economic group (SEG) is a classification system based on occupation. It enables a household and all its members to be classified according to the occupation of the Chief Income Earner (CIE). A number of questions need to be asked in the interview in order to assign social grade accurately. The interviewer probes the respondent for information about the occupation of the CIE, the type of organisation (s)he works for, job actually done, job title/rank/grade, and whether the CIE is self-employed. Also relevant are details of the number of people working at the place of employment and whether the CIE is responsible for anyone, together with confirmation of qualifications. The groups are most often defined as follows:

A - Higher managerial, administrative, professional, eg chief executive, senior civil servant, surgeon.

B - Intermediate managerial, administrative, professional, eg bank manager, teacher.

C1 - Supervisory, clerical, junior managerial, eg shop floor supervisor, bank clerk, salesperson.

C2 - Skilled manual workers, eg electrician, carpenter.

D - Semi-skilled and unskilled manual workers, eg assembly line worker, refuse collector, messenger.

E - Casual labourers, pensioners, unemployed, eg pensioners without private pensions and anyone living on basic benefits.

<sup>8</sup> 99p referred to customer research it commissioned in 2014 which showed ‘more C1s’ than appear in the CMA survey findings. The CMA understands this research to have been an online panel survey, no further details of which were submitted to us for review. As such, we have not placed significant weight on this evidence. (Retail Active’s exit survey research for 99p, submitted to us for review, contains no analysis by SEG.)

explanation for this may be coding error (respondents who should be categorised as C1s have assigned themselves, or have been assigned by interviewers, to the incorrect socio-economic grade), rather than non-response bias (where C1 respondents are genuinely 'missing' in the achieved dataset). This is because respondents to Poundland's survey self-allocated their household's main income earner to socio-economic groups. Meanwhile, our quality assurance spot-checks during survey fieldwork (see paragraph (c) above) found that most of the interviewers observed were not well-practised in asking the main income earner question and preferred to hand the CAPI tablet to respondents to self-complete. To this extent, C1s may be better represented in the CMA survey dataset (and, indeed, in the dataset from Poundland's survey) than the demographic indices imply, ie more C1s have actually been surveyed than we know have been surveyed.

**Table 3: SEG**

	%					
	ABC1	C2DE	AB	C1	C2	DE
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]†	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]‡	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]§	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]¶	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
<i>CMA survey#</i>						
All customers excl. dk/ns	41	59	27	15	24	34
Poundland customers excl. dk/ns	42	58	28	14	24	34
99p customers excl. dk/ns	41	59	25	16	25	34

Source: Poundland, CMA survey

\*[redacted]

†[redacted]

‡[redacted]

§[redacted]

¶[redacted]

#n=5,022 [exit survey].

(iii) **Age** – Poundland has submitted that, at [redacted] of respondents for Poundland, the size of the age 55+ sub-group in the CMA survey is 'considerably more than in previous surveys commissioned by Poundland and, again, inconsistent with its business experience'. It is worth noting that when the CMA's data are rebased to exclude under 18s and over 80s and a like-for-like comparison is made, the proportion of age 55+ customers is – at 38% for Poundland – in line

with the proportion of age 55+ customers for Poundland in Poundland’s survey ([redacted]%). However, the CMA survey dataset does appear to under-represent customers aged 35 to 54 in comparison with both Poundland’s survey and the TNS findings for regular Poundland shoppers and regular Poundworld/99p customers.

**Table 4: Age**

	%		
	16-34	35-54	55+
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]*	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]†	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
<i>CMA survey</i> ‡	<i>16-34</i>	<i>35-54</i>	<i>55+</i>
All customers excl. refused	28	33	39
Poundland customers excl. refused	27	33	40
99p customers excl. refused	28	34	38
	<i>18-34</i>	<i>35-54</i>	<i>55-79</i>
All customers excl. 16-17s, 80+ and refused	27	35	38
Poundland customers excl. 16-17s, 80+ and refused	26	35	38
99p customers excl. 16-17s, 80+ and refused	27	35	38

Source: Poundland, CMA survey

\*[redacted]

†[redacted]

‡n=5,452 [exit survey].

(iv) **Working status** – Poundland has submitted that ‘no previous research commissioned by [Poundland] has ever identified such an over-indexing of retired respondents, nor is this something that has ever been identified by the business as part of its ordinary course of operations’. It is certainly the case that, in comparison with [redacted]’s 2011 findings for Poundland customers who shop once a week, the proportion of retired customers is higher in the CMA survey dataset. However, as Table 5 shows, any over-representation of retirees in the CMA dataset has occurred only at the expense of other, not working respondents since the proportion of working respondents – at 50% – is completely in line with both [redacted]’s 2011 findings for Poundland customers who shop once a week, and 2013 [redacted] findings for Poundland customers.

**Table 5: Working status**

	%			
	Working		Not working	
	Full-time	Part-time	Retired	Other
[redacted]				
[redacted]*				
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]†				
[redacted]	[redacted]		[redacted]	[redacted]
[redacted]	[redacted]		[redacted]	[redacted]
[redacted]	[redacted]		[redacted]	[redacted]
[redacted]	[redacted]		[redacted]	[redacted]
CMA survey‡				
All customers	34	16	27	23
Poundland customers	32	17	28	23
99p customers	35	16	27	22

Source: Poundland, CMA survey

\*[redacted]

†[redacted]

‡n=5,022; 'other' = not working + student + looking after home + other [exit survey]

- (v) **Customers who buy a small number of items** – Poundland has submitted that the CMA survey ‘appears significantly to under-index busy shoppers who go into the Parties’ shops to buy one or two items’. The CMA survey found that 12% of Poundland customers spent up to £1, and 40% spent up to £3, compared with Poundland Management Information (MI) data of [redacted]% and [redacted]% of customers respectively for the corresponding spend amounts. Poundland also notes that the average transaction value derived from the CMA survey for Poundland is – at £[redacted] – ‘materially higher than the actual figure’, most recently stated by Poundland to be £[redacted].<sup>9</sup> We acknowledge this concern. We also note that these are the only survey estimates for which we have ‘hard’ data (MI-derived figures) to validate against (any demographic comparisons are against other survey-derived estimates that have their own biases). It is possible that customers purchasing a smaller number of items had a higher propensity to refuse to be interviewed. However, the impact of this on diversion ratios is likely to be relatively small as the customers concerned account for only a small proportion of sales revenue in these stores. It should be noted that, using the raw data from Poundland’s survey, we have calculated that the average spend among Poundland customers who responded to Poundland’s survey was £[redacted].

<sup>9</sup> *The Guardian* (31 July 2015), ‘[Poundland puzzles over how to keep it cheap and in reach](#)’.

- (vi) **Diversification variation** – in its comments on the CMA survey, Pragma Consulting Ltd (on behalf of Poundland) states that [§]. We consider the variation in diversion to different competitors to be reasonable, given the differing local conditions and geographical locations of stores relative to each other. However, the percentage of spend weighted diversion to the ‘outside option’ varies between 3% and 45% for individual stores. It is possible that this is due to the range of available alternatives close to the sample stores, but the variation is larger than we would normally expect.
- (f) The survey questions on diversion are hypothetical and customers’ reported behaviour may differ from their actual behaviour (stated versus revealed preferences).
- (g) As asked in this survey, the questions on diversion do not distinguish between marginal and inframarginal customers. The CMA is interested in the actions of marginal, rather than inframarginal, customers since it is the marginal customer who may switch in response to small changes in the offering. Therefore, when considering the estimated diversion ratios from a survey, it must be assumed that marginal customers behave in the same way as inframarginal customers. As the CMA’s guidance notes,<sup>10</sup> this is not usually a concern in horizontally differentiated product markets, although if inframarginal customers had different switching patterns from marginal customers then the diversion ratios may not provide a meaningful estimate of how marginal customers would react to a worsening in the Parties’ offering, post-merger. This could be a concern if, for example, inframarginal customers have different preferences from marginal customers.

### **Diversification ratio calculation**

13. Diversion ratios have been calculated to the other merger party and to each of the third parties for each surveyed store. These diversion ratios have been calculated in two ways: each eligible respondent is weighted by the amount spent on the surveyed visit to the store (labelled as ‘spend weighted’ in papers and tables); and calculated so that every eligible respondent is given an equal weight (labelled as ‘not spend weighted’). For the latter calculation, each individual’s diversion behaviour has been apportioned by share of items. For example, if an individual had bought five items, but would only purchase three in response to the diversion question, then 0.4 would be assigned to the

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<sup>10</sup> Joint OFT and CC, *Good practice in the design and presentation of consumer survey evidence in merger inquiries*, p33, footnote 5.

outside option (items not purchased) and 0.6 to the diversion destination store cited by the respondent (again this would be apportioned by number of items if more than one store was cited).

14. A broad outline of the calculation, based on question 3j and questions 4a to 4d of the survey, is as follows:
- (a) Drop any respondents who did not answer with a number in the range of 1 to 60 to question 3j (number of items purchased) – 34 cases. Drop all ‘don’t know’ responses to question 4a as they are not informative about diversion behaviour for the purpose of diversion ratio calculations – 194 cases. Drop any cases with ‘don’t know’ responses to question 4d – 21 cases. Drop any cases where the item sum of diversion responses (outside option + cited diversion destinations + unknown diversion destination) does not equal 3j – 115 cases.
  - (b) Assign all items not purchased to the outside option. These comprise a value of 1 for code 2 responses to questions 4ai, 4aiii and 4av, a value of 3j (the respondent’s response to question 3j) for code 1 responses to 4aii, 4aiv and 4avi, and a value of (3j minus 4b) for code 2 responses to 4aii, 4aiv and 4avi.
  - (c) Assign all remaining items to the cited diversion party. This will be a single item for any respondents only diverting their purchase of one item to another store and will be picked up from their answer to question 4ci. For those respondents stating diversion purchases of more than one item, the allocations will be picked up from the combination of responses to questions 4cii and 4d.
  - (d) Spend weight using responses to question 3i.
15. The diversion ratio for each individual store is then calculated as follows (the example given is for diversion to the merger party but the calculation of diversion to third party competitors follows the same pattern):

$$DR = \frac{MP + DK * (MP / (MP + TP + OP))}{(OO + MP + TP + DK * (MP + TP) / (MP + TP + OP))},$$

where

DK = Don’t know

MP = Merger party

TP = Third party

OP = Own party

OO = Outside option (ie not purchased).

Note that this calculation follows the standard CMA practice of excluding own party diversion from the denominator of the diversion ratio calculation. It also employs our usual assumption that purchases that are stated to be diverted to another store, but for which the respondent does not know which store, are allocated in the same proportion as aggregated known diversion destinations of other respondents (in this case the aggregate of respondents at the same surveyed store has been used).

16. Table 6 sets out the resulting diversion ratios for the Parties in each location as derived from the CMA survey. The overall diversion ratios from 99p to Poundland include the results of the two 99p Plus stores that were surveyed (Dudley and Yate). When these two stores are excluded, the average spend weighted diversion ratio from 99p to Poundland is 42%.

**Table 6: Diversion ratio summary (CMA survey)**

%

*Diversion ratio*

	<i>Spend weighted</i>		<i>Not spend weighted</i>	
	<i>Poundland to 99p</i>	<i>99p to Poundland</i>	<i>Poundland to 99p</i>	<i>99p to Poundland</i>
Average	36	41	34	40
Ramsgate	65	60	58	58
Basingstoke	50	22	45	25
Slough	49	43	45	41
Ayr	44	43	32	41
Newcastle-under-Lyme	42	33	41	38
Hemel Hempstead	38	39	36	47
Harlow	37	51	41	49
Dudley	36	26	33	32
Great Yarmouth	28	39	26	42
Surrey Quays	28	48	29	49
Eastleigh	26	35	25	40
Leytonstone	24	HR 52 WR 26	23	HR 43 WR 20
Haverfordwest	22	46	25	40
Croydon	22	CH 53 NE 47	24	CH 43 NE 41
Yate	22	30	25	33

Source: CMA analysis of the CMA survey data

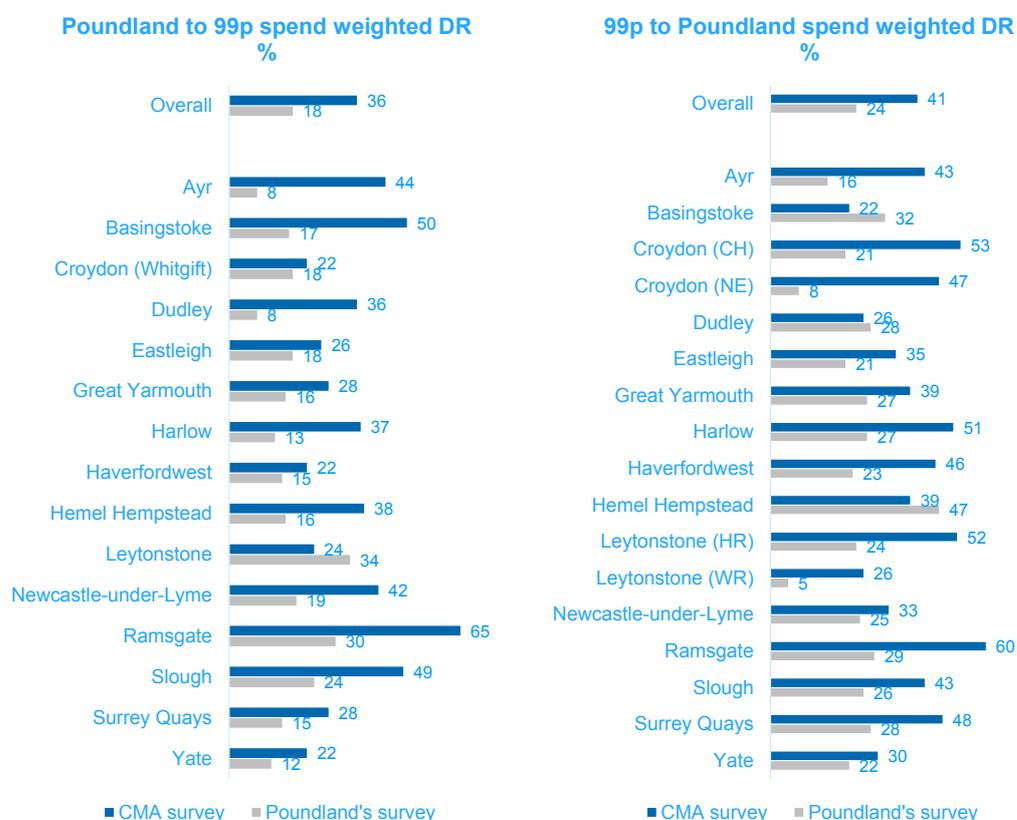
Note: Leytonstone – HR: High Rd, WR: Woodgrange Rd; Croydon – CH: Crown Hill, NE: North End Rd.

17. It should be noted that several of the diversion ratios reported here, and referred to elsewhere in this report, differ from those reported by Accent on slides 44 and 45 of its presentation.<sup>11</sup> This is due to further refinement in the validation of responses by the CMA, leading to more cases being dropped (see paragraph 14(a)) for the purpose of diversion ratio calculation.
18. Figure 1 below compares the spend weighted diversion ratios for the Parties in each location as derived from the CMA survey with those for the same

<sup>11</sup> [Customer exit surveys](#) (6 July 2015).

areas as derived from the CMA's analysis of the raw data from Poundland's survey.

**Figure 1: Diversion ratio summary (CMA survey vs. Poundland's survey)**



Source: CMA analysis of the CMA survey data; CMA analysis of Poundland's survey data  
 Note: Leytonstone – HR: High Rd, WR: Woodgrange Rd; Croydon – CH: Crown Hill, NE: North End Rd.

**CMA survey compared with Poundland's survey**

19. During phase 1, Poundland carried out two consumer surveys – an online survey that garnered around 60,000 responses (referred to in this appendix as 'Poundland's survey'), and a telephone 'validation' survey with 402 respondents. Subsequently, Poundland submitted only the findings from the online survey as evidence in support of their case, and so the discussion in this appendix is limited to its findings.

**Methodology – Poundland's survey**

20. Poundland's survey, which used an online self-completion methodology, surveyed customers in every Poundland store (500+ shops) and in 99p branches where they overlapped within a one mile radius of Poundland ([X] shops).

21. Over an approximately six-week period in late 2014, invitations to participate in the survey were included on till receipts, and on information cards handed to customers as they left the shop; they then needed to log onto a website to complete the questionnaire. Participation in the survey was incentivised by entry into a prize draw for an iPad. The survey garnered around 60,000 responses.
22. The diversion questions in this survey asked respondents about their last visit to Poundland or 99p, and their alternative purchase behaviour if the shop they had visited were closed for refurbishment for a few months:
  - (a) Those who had spent up to £1 were asked whether they would or would not buy the item from another store (or don't know). Those who would buy the item from another store were asked: (i) which one store, selected from a pre-coded list of options; and (ii) which stores other than Poundland/99p (as applicable) they would have considered using for their purchase, again selected from a pre-coded list of options.
  - (b) Those who spent more than £1 were asked whether they would buy all, some or none of the items. Those who would buy all the items were asked whether this would be from one store or two or more stores:
    - (i) Those who would buy all the items from one store were asked: (i) which one store, selected from a pre-coded list of options; and (ii) which stores other than Poundland/99p (as applicable) they would have considered using for their purchase, again selected from a pre-coded list of options.
    - (ii) Those who would buy all the items from two or more stores were asked: (i) which one store for each category of purchase, selected from a pre-coded list of options; and (ii) which stores other than Poundland/99p (as applicable) they would have considered using for each category of purchase, again selected from a pre-coded list of options.
  - (c) Those who spent more than £1 were asked whether they would buy all, some or none of the items. Those who would buy some of the items were asked whether this would be from one store or two or more stores.
    - (i) Those who would buy some of the items from one store were asked: (i) which one store, selected from a pre-coded list of options; and (ii) which stores other than Poundland/99p (as applicable) they would have considered using for their purchase, again selected from a pre-coded list of options.

- (ii) Those who would buy some of the items from two or more stores were asked: (i) which one store for each category of purchase, selected from a pre-coded list of options; and (ii) which stores other than Poundland/99p (as applicable) they would have considered using for each category of purchase, again selected from a pre-coded list of options.

### ***Issues – Poundland’s survey***

23. The CMA has some concerns about the robustness of Poundland’s survey, which raise doubts about the evidential weight that can be placed on it. We set out these concerns below.

#### *A low response rate, and the potential for non-response bias in the survey*

24. Participation in Poundland’s survey required customers: to know about the research (because they were offered, took, retained and read a till receipt/information leaflet); to be motivated to go online and complete the survey; and to have the means of completing an online survey (ie internet access). By definition, therefore, findings from Poundland’s survey can only reflect the views of Poundland and 99p customers who knew about the survey, wanted to take part and were able to take part. In this context, 21% of all respondents to the CMA survey (a substantial minority, and higher than the nationally representative average of 12%)<sup>12</sup> report that they ‘never’ go online, rising to 30% of C2DE respondents (compared with 8% of ABC1s) and 43% of the over-55s.
25. In practice, a very small proportion of till receipts issued (around 0.3%) resulted in a survey response. Repeat visits to stores by the same customer means that the concept of a response rate is somewhat unclear. However, the Parties have suggested that when these repeat visits are taken into account, approximately 1% of customers who visited the surveyed stores during the fieldwork period responded to the survey.
26. This is exceptionally low. The CMA is generally cautious of giving evidential weight to surveys where the response rate is below 5% because of the non-response bias potential. Indeed, the CMA advised the Parties that it was concerned about the methodology before the survey was commissioned and suggested that a small validation survey be undertaken using a different methodology. Subsequently, an exit survey was conducted in [redacted] and [redacted] (in one Poundland and 99p per area, giving a total of [redacted] stores) in which

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<sup>12</sup> Ipsos MORI Tech Tracker, Q2 2015.

telephone numbers were collected as customers left the surveyed stores and were subsequently contacted by a telephone interviewer. As can be seen from Table 7 below, the results of this survey were materially different from those for the same stores in the on-line survey, particularly with respect to higher diversion ratios to the merger party.

**Table 7: Diversion ratio summary (Poundland’s survey vs. telephone validation survey)**

	Diversion ratio			
	[X]		[X]	
	Poundland to 99p	99p to Poundland	Poundland to 99p	99p to Poundland
Online*	[X]	[X]	[X]	[X]
Telephone†	[X]	[X]	[X]	[X]

Source: CMA analysis of Poundland survey data  
 \*Poundland’s survey.  
 †Validation survey.

### *A complex diversion ratio calculation*

27. The methodology used to calculate diversion ratios from the survey was complex, involving the possibility for many respondents of split-basket diversion by individual item category. In contrast, respondents to the CMA survey could split their baskets but were not required to say which specific items they would divert where, nor the value of the items being diverted. We consider that the complexity of Poundland’s survey could reduce the reliability of the diversion ratios; it requires a higher level of recall from respondents and they may be less likely to think of their purchases as a basket of goods at a single price point for diversion to another SPP retailer.

### **CMA survey**

28. The CMA survey has been designed to avoid or minimise the issues identified with Poundland’s survey, and to address other potential shortcomings in research design:

- (a) The face-to-face exit survey made it easy to respond to the survey and respondents did not need access to the internet in order to do so.
- (b) Because they were effectively interviewed in real-time, survey participants could answer the questionnaire with little or no recourse to recall, increasing the likelihood that they provided accurate responses.
- (c) The pressure on respondents’ time was minimised by keeping the questionnaire short, by avoiding complex question formats (for example, respondents were not required to rate each store attribute at Q3f for

importance), and by making it as quick and easy as possible to answer factual questions with the inclusion of showscreens (eg Q3h).

- (d) In keeping with this approach, the diversion questions were simplified, with customers not required to split their diverted spend between product categories and retailers. This should lead to more reliable results.
- (e) To minimise what Poundland has referred to as ‘frame of mind’ bias as far as possible, the wording of the diversion question was varied to remind respondents of the circumstances in which they told us they had decided to shop at Poundland or 99p, for example, a visit planned in advance with Poundland or 99p as the only or main trip destination versus an impulse visit as part of a shopping trip to a variety of retailers.
- (f) Poundland has argued that there is what it refers to as a ‘line of sight’ bias: that respondents are more likely to mention shops in their line of sight as their diversion destinations. As described above, members of the CMA’s statistical team observed interviews taking place in a number of locations. It was clear to us that respondents were not looking around or responding to this question with reference to what was in their line of sight. Many named diversion destinations that definitively were not in line of sight.
- (g) Respondents’ choice of diversion retailer at Q4ci or Q4cii was fully spontaneous, with no mention of a retailer other than Poundland or 99p at any point in the questionnaire to potentially influence their answer. (In contrast, respondents’ choice of diversion party/parties in Poundland’s survey may have been conditioned to some extent by presenting them with a pre-coded list of retailers at the outset of the interview.) Consequently, a wide range of third parties were named by respondents, many of which could not be described as SPPs or VGMs. Respondents could also give ‘Don’t know’ as their answer to these questions.

### ***Conclusions on survey quality***

29. We recognise that, like all surveys, the CMA survey has some weaknesses; sampling variation, the potential for non-response bias and the hypothetical nature of the diversion questions are, in common with most merger inquiry surveys, potential sources of error. In this survey, we also had some initial concerns about the quality of some of the fieldwork, although these were, in our view, satisfactorily addressed. Nonetheless, for the reasons set out in detail above, we consider the CMA survey to be more reliable than Poundland’s survey, particularly with regard to estimates of diversion ratios. We note in particular that the CMA survey achieved a good number of

interviews per surveyed store and a high response rate. Interviewing customers as they left the store minimised potential recall issues and our survey questionnaire was designed specifically to address evidence gaps in our understanding of consumer behaviour in this inquiry. We have therefore used the CMA survey results except where Poundland's survey covered topics not addressed in our questionnaire.

**POUNDLAND / 99p STORES EXIT SURVEY**  
**FINAL, 22.06.2015 (revised fielded version)**

**SYSTEM INFORMATION:**

Date:

Time interview started:

---

**RETAILER: INTERVIEWER: ENTER**

Poundland  
99p Stores  
99p Plus Stores

---

**LOCATION: INTERVIEWER: ENTER**

Ayr  
Basingstoke  
Croydon 139 North End  
Croydon Crown Hill  
Croydon Whitgift Centre  
Dudley  
Eastleigh  
Great Yarmouth  
Harlow  
Haverfordwest  
Hemel Hempstead  
Newcastle-under-Lyme  
Leytonstone  
Leytonstone Woodgrange Road  
Ramsgate  
Slough  
Surrey Quays  
Yate

---

**QDAY: INTERVIEWER ENTER DAY OF WEEK**

Monday  
Tuesday  
Wednesday  
Thursday  
Friday  
Saturday  
Sunday

---

**SHIFT: INTERVIEWER ENTER SHIFT TIME**

08:00-14:00  
09:00-15:00  
10:00-16:00  
11:00-17:00  
12:00-18:00  
13:00-19:00  
14:00-20:00

---

### SCREENER

Good morning/afternoon/evening. My name is ..... from Accent and I am carrying out research into shopping at #RETAILER#.

The questionnaire will take about 5 minutes to complete. You do not have to answer questions you do not wish to and you can terminate the interview at any point.

---

1. Did you buy anything today from #RETAILER#?

Yes

No **THANK & CLOSE**

Prefer not to say **THANK & CLOSE**

---

### POUNDLAND/99P STORES SHOPPING FREQUENCY

2. Including your visit just now, how many times have you bought something from #RETAILER# in the last two weeks? **SINGLE CODE**

Open-ended number (1+)

Don't know/can't remember

---

### MOST RECENT TRIP

3a. **INTERVIEWER READ OUT:** As I ask the following questions, please think about your visit just now to #RETAILER#.

**SHOW SCREEN:** Was your visit to #RETAILER# ...? **SINGLE CODE**

1. Your only reason for making a trip today (you haven't been/aren't going to any other shops, or anywhere else)

2. Your main reason for making a trip today (going to other shops or somewhere else is **less** important than coming here)

3. Not your main reason for making a trip today (going to other shops or somewhere else is **more/as** important as coming here)

Don't know

---

### ASK ALL CODE 3 (NOT THE MAIN REASON) OR CODE 4 (DK) AT Q3A

3b. When did you decide to visit #RETAILER#? **SINGLE CODE**

1. Before setting out (= planned visit)

2. During the trip, e.g. just decided to go in as I walked by (= impulse/spontaneous/speculative visit)

Don't know

---

3c. To make this trip to #RETAILER# today, where did you set out from? **SINGLE CODE**

1. Home

2. Work/workplace/office

3. School/college/university

4. Other shops/service providers (e.g. nailbar/hairdresser/barber; Post Office; Job Centre Plus)

5. Somewhere else (e.g. sports venue/gym/leisure centre/swimming pool; pub/café/restaurant)

Don't know

---

3d. How did you make this trip? If you used more than one mode of transport, please tell us about the one you used for the longest part of the journey. **SINGLE CODE**  
On foot/walked the whole way  
Bicycle  
Car/van  
Motorbike  
Bus  
Taxi/minicab  
Train (incl. underground/metro)  
Tram  
Other  
Don't know

---

3e. How long did the trip take? **ADD IF NEEDED:** A rough idea is ok if you're not sure of how long exactly. **RECORD TIME IN MINUTES** (e.g. "quarter of an hour" = 15 minutes; "2 hours" = 120 minutes.) **DO NOT PROMPT. SINGLE CODE**  
Open-ended answer (1 minute+)  
Don't know

---

3f. What is it about #RETAILER# that made you want to shop here today? **DO NOT PROMPT. INTERVIEWER: RECORD 1<sup>st</sup> RESPONSE ONLY. SINGLE CODE**  
**IT'S CHEAP** (affordable; cheaper than other shops; don't spend too much; promotions/deals/offers; saves me money; value for money etc.)  
**LOCATION** (close to other shops/places I go; easy/convenient for me to get to; nearby; on my way etc.)  
**RANGE** (availability/reliable supply/know I can get what I want; good variety of products to choose from; only place I can get these products; product quality is ok/good; stocks well-known brands etc.)  
**RETAILER'S REPUTATION** (household name; trusted brand)  
**SHOPPING EXPERIENCE** (good customer service; pleasant shopping environment; well-trained and helpful staff etc.)  
**SIMPLE OFFER** (all products are the same price)  
Other 1 (TYPE IN)  
Other 2 (TYPE IN)  
Other 3 (TYPE IN)  
Don't know **GO TO Q3G**

---

3fb. Anything else? **DO NOT PROMPT. RECORD ANY OTHER RESPONSES.**  
**MULTICODE OK**  
**REPEAT CODES AT Q3F EXCEPT RESPONSE AT Q3F**  
No, nothing else

---

3g. **SHOW SCREEN:** From this list, which of the following best describes **your main reason** for shopping at #RETAILER# today? *RANDOMISE ITEMS EXCEPT ANOTHER REASON/DK. SINGLE CODE*  
**No reason** – just went in to browse/see what they had  
To buy a **one-off item**  
To buy a **treat** for you and/or someone else  
To buy **something to eat/drink straightaway**  
To buy **something you couldn't get anywhere else**  
To buy **something you needed urgently** (e.g. something you forgot to get somewhere else/you'd run out of and needed straightaway)  
To do your **main (weekly/monthly) household shop for a particular type of product** (e.g. you prefer to buy all your cleaning products from #RETAILER# even though you do your main food shopping somewhere else)  
To **'top up' with items in between main (weekly/monthly) household shops**  
Another reason (TYPE IN)  
Don't know

---

3h. **SHOW SCREEN:** Which of the following product categories did you buy from #RETAILER# today? Please select all that apply. *RANDOMISE ITEMS EXCEPT OTHER/DK. MULTICODE OK EXCEPT PREFER NOT TO SAY*  
Cards, gifts and flowers, stationery, crafting and party products  
Clothing and accessories  
DIY & gardening products  
Food and drink to consume immediately  
Groceries for home (incl. food and drink for home, chilled items, tins, packets, jars, soft drinks, snacks)  
Health & beauty and baby products (toiletries, cosmetics, health/wellbeing, babyfood and accessories)  
Homewares and pet (including pots and pans, baking implements, pet and bird food, pet toys)  
Household basics and cleaning (incl. batteries, kitchen towels, toilet tissue, cleaning/washing products)  
Toys and entertainment (books, games, CDs, DVDs, seasonal products e.g. Christmas, Halloween, Easter)  
Other (TYPE IN)  
Prefer not to say

---

3i. How much did you spend in #RETAILER# today? **ADD IF NEEDED:** A rough idea is ok if you're not sure and you don't have your receipt handy. **DO NOT PROMPT.** *SINGLE CODE*  
Open-ended answer (£0.01+)  
Prefer not to say **GO TO Q5A**  
Don't know **GO TO Q5A**

---

3j. And how many items did you buy in #RETAILER# today? **DO NOT PROMPT.** **ADD IF NEEDED/RESPONDENT REQUESTS CLARIFICATION:** If you bought something as a "multibuy" – for example [**IF POUNDLAND:** two or three of the same thing for £1] [**IF 99P STORE:** two or three of the same thing for 99p] please count these as a one item. *SINGLE CODE*  
Open-ended answer (1+)  
Prefer not to say **GO TO Q5A**  
Don't know **GO TO Q5A**

**IF RESPONDENT IS CODE 4 AT Q3A AND CODE 3 AT Q3B GO TO Q5A**

---

**DIVERSION**

**INTERVIEWER READ OUT:** Just to remind you that we're still talking about your visit to #RETAILER# today.

---

4ai. **ASK ALL WHO ARE CODE 1 OR CODE 2 AT Q3A AND WHOSE ANSWER AT Q3J IS '1' (=only/main reason for making a trip was to visit retailer and bought a single item)**

**SHOW SCREEN:** Earlier, you told me that your visit to #RETAILER# was [IF CODE 1 AT Q3A: your only reason for making a trip today] [IF CODE 2 AT Q3A: your main reason for making a trip today].

If you had known before you set out today that #RETAILER# was closed for several months for refurbishment, and so were all the other #RETAILER# branches, what would you have done instead? **SINGLE CODE**

1. I would have bought the item somewhere else
  2. I wouldn't have bought the item **GO TO Q4e**
  - Don't know **GO TO Q4e**
- 

4aaii. **ASK ALL WHO ARE CODE 1 OR CODE 2 AT Q3A AND WHOSE ANSWER AT Q3J IS '2+' (=only/main reason for making a trip was to visit retailer and bought 2+ items)**

**SHOW SCREEN:** Earlier, you told me that your visit to #RETAILER# was [IF CODE 1 AT Q3A: your only reason for making a trip today] [IF CODE 2 AT Q3A: your main reason for making a trip today].

If you had known before you set out today that #RETAILER# was closed for several months for refurbishment, and so were all the other #RETAILER# branches, what would you have done instead? **SINGLE CODE**

1. I would have bought **all of the items** somewhere else
  2. I would have bought **some of the items** somewhere else (even if I bought less or more of each item)
  3. I wouldn't have bought **any of the items** **GO TO Q4e**
  - Don't know **GO TO Q4e**
- 

4aiii. **ASK ALL WHO ARE CODE 3 AT Q3A AND CODE 1 AT Q3B AND WHOSE ANSWER AT Q3J IS '1' (=visit to retailer was not main reason for trip but was planned and bought a single item)**  
**ASK ALL WHO ARE CODE 4 AT Q3A AND CODE 1 AT Q3B AND WHOSE ANSWER AT Q3J IS '1' (=visit to retailer was planned and bought a single item)**

**SHOW SCREEN:** Earlier, you told me you decided to visit #RETAILER# today before you set out.

If you had known before you set out today that #RETAILER# was closed for several months for refurbishment, and so were all the other #RETAILER# branches, what would you have done instead? **SINGLE CODE**

1. I would have bought the item somewhere else
2. I wouldn't have bought the item **GO TO Q4e**
- Don't know **GO TO Q4e**

- 
- 4aiv. **ASK ALL WHO ARE CODE 3 AT Q3A AND CODE 1 AT Q3B AND WHOSE ANSWER AT Q3J IS '2+' (=visit to retailer was not main reason for trip but was planned and bought 2+ items)**  
**ASK ALL WHO ARE CODE 4 AT Q3A AND CODE 1 AT Q3B AND WHOSE ANSWER AT Q3J IS '2+' (=visit to retailer was planned and bought 2+ items)**

**SHOW SCREEN:** Earlier, you told me you decided to visit #RETAILER# today before you set out.

If you had known before you set out today that #RETAILER# was closed for several months for refurbishment, and so were all the other #RETAILER# branches, what would you have done instead? **SINGLE CODE**

1. I would have bought **all of the items** somewhere else
  2. I would have bought **some of the items** somewhere else (even if I bought less or more of each item)
  3. I wouldn't have bought **any of the items** **GO TO Q4e**
- Don't know **GO TO Q4e**

- 
- 4av. **ASK ALL WHO ARE CODE 3 AT Q3A AND CODE 2 AT Q3B AND WHOSE ANSWER AT Q3J IS '1' (=visit to retailer was not main reason for trip, and trip was not pre-planned, and bought a single item)**  
**ASK ALL WHO ARE CODE 3 AT Q3A AND CODE 3 AT Q3B AND WHOSE ANSWER AT Q3J IS '1' (=visit to retailer was not main reason for trip, and dk whether trip was planned/impulse, and bought a single item)**  
**ASK ALL WHO ARE CODE 4 AT Q3A AND CODE 2 AT Q3B AND WHOSE ANSWER AT Q3J IS '1' (=trip was not pre-planned, and bought a single item)**

**SHOW SCREEN:** If you had found today that #RETAILER# was closed for several months for refurbishment, and so were all the other #RETAILER# branches, what would you have done instead? **SINGLE CODE**

1. I would have bought the item somewhere else
  2. I wouldn't have bought the item **GO TO Q4e**
- Don't know **GO TO Q4e**

- 
- 4avi. **ASK ALL WHO ARE CODE 3 AT Q3A AND CODE 2 AT Q3B AND WHOSE ANSWER AT Q3J IS '2+' (=visit to retailer was not main reason for trip, and trip was not pre-planned, and bought 2+ items)**  
**ASK ALL WHO ARE CODE 3 AT Q3A AND CODE 3 AT Q3B AND WHOSE ANSWER AT Q3J IS '2' (=visit to retailer was not main reason for trip, and dk whether trip was planned/impulse, and bought 2+ items)**  
**ASK ALL WHO ARE CODE 3 AT Q3A AND CODE 2 AT Q3B AND WHOSE ANSWER AT Q3J IS '2+' (=trip was not pre-planned, and bought 2+ items)**

**SHOW SCREEN:** If you had found today that #RETAILER# was closed for several months for refurbishment, and so were all the other #RETAILER# branches, what would you have done instead? **SINGLE CODE**

1. I would have bought **all of the items** somewhere else
  2. I would have bought **some of the items** somewhere else (even if I bought less or more of each item)
  3. I wouldn't have bought **any of the items** **GO TO Q4e**
- Don't know **GO TO Q4e**

---

4b. **NOTE TO ACCENT: POTENTIAL SWITCH OFF QUESTION.**  
**ASK ALL CODE 2 AT Q4aii OR Q4aiv OR Q4avi (=would by some of the items)**

How many of those items would you have bought? **DO NOT PROMPT.** SINGLE  
CODE

Open-ended answer (1+) **!!ANSWER MUST BE LESS THAN NUMBER GIVEN AT  
Q3J!!**

Don't know

---

4ci. **ASK ALL CODE 1 AT Q4ai/Q4aiii/Q4av (=bought a single item) AND ALL CODE 2  
AT Q4aii/Q4aiv/Q4avi WHOSE ANSWER AT Q4B IS '1' (=originally bought  
multiple items but would now only buy 1)**

Where would you have bought the item instead? **DO NOT PROMPT.** SINGLE CODE

Accessorise	Max 99p
Aldi	Mega Value
Argos	Morrisons
Asda	99p Stores
B&M Bargains	Netto
Best-One	NISA
Booths	Paperchase
Boots	Pets At Home
Budgens	Poundland
Card Factory	Poundstretcher
Claire's Accessories	Poundworld
Clas Ohlson	Premier Stores
Clintons	Primark
Costcutter	Robert Dyas
Farmfoods	Rymans
Greggs	Sainsbury's
H&M	Sam 99p
Halfords	Savers
Happy Shopper	Spar
Holland & Barrett	Sports Direct
Home Bargains	Subway
Iceland	Superdrug
IKEA	Tesco
Lakeland	The Co-Operative
Lidl	Tiger
Londis	TK Maxx
Maplin	Waitrose
Marks & Spencer	WH Smith
Matalan	Wilkinson/Wilko
	Local independent discount store or pound shop
	Local independent convenience shop
	Other 1 (TYPE IN)
	Other 2 (TYPE IN)
	Other 3 (TYPE IN)
	Don't know

---

4cii. **ASK ALL CODE 1 AT Q4a<sub>ii</sub>/Q4a<sub>iv</sub>/Q4a<sub>vi</sub> (=bought multiple items and would buy all) AND ALL CODE 2 AT Q4a<sub>ii</sub>/Q4a<sub>iv</sub>/Q4a<sub>vi</sub> WHOSE ANSWER AT Q4B IS '2+' (=bought multiple items and would still buy multiple items, just not as many)**

Where would you have bought the items instead? **DO NOT PROMPT. MULTICODE OK**  
**REPEAT CODES AT Q4cii**

---

4d. **NOTE TO ACCENT: POTENTIAL SWITCH OFF QUESTION**  
**ASK ALL CODE 1 AT Q4a<sub>ii</sub>/Q4a<sub>iv</sub>/Q4a<sub>vi</sub> (=bought multiple items and would buy all) AND ALL CODE 2 AT Q4a<sub>ii</sub>/Q4a<sub>iv</sub>/Q4a<sub>vi</sub> WHOSE ANSWER AT Q4B IS '2+' (=bought multiple items and would still buy multiple items, just not as many) WHO ALSO NAME 2+ SHOPS AT Q4cii**

How many of those items would you have bought at ... ? **DO NOT PROMPT. SINGLE CODE**  
**REPEAT FOR EACH STORE NAMED AT Q4cii. !!SUM OF ANSWERS AT Q4D MUST BE EQUAL TO NUMBER GIVEN AT Q3J OR Q4B AS APPROPRIATE!!**

---

4e. **SHOW SCREEN.** Again imagining that #RETAILER# was closed for several months for refurbishment, and so were all its other branches, for you personally would this be ... ? **REVERSE CODES 1-4 FOR 50% OF SAMPLE. SINGLE CODE**

1. Very inconvenient
2. Fairly inconvenient
3. Not very inconvenient
4. Not at all inconvenient

Don't know

---

**INTERVIEWER READ OUT:** Thank you for that. Just to make clear, those last few questions were asked only as "what ifs". There are no plans for #RETAILER# to close all its branches for several months for refurbishment.

---

### **Classification Questions**

We would now just like to ask a few questions which will help us to understand some of the information you have provided us with. Please be assured that all details you give will be treated with the strictest confidence. The personal information you provide during this survey will be kept confidential by Accent and will not be disclosed to third parties.

---

Q5a **INTERVIEWER: RECORD GENDER:**

Male  
Female

---

Q5b Which one of the following age groups do you belong to? **SHOW SCREEN**

16-17  
18-24  
25-34  
35-44  
45-54  
55-64  
65-74  
75-79  
80+

**ALLOW QUESTION TO NOT BE ANSWERED**

---

Q5c How often, if at all, do you personally use the internet? *SINGLE CODE*

- Every day
- 5-6 days a week
- 2-4 days a week
- Once a week
- Once a fortnight
- About once a month
- Less than once a month
- Never

---

Q5d What is your employment status? **IF EMPLOYED PROBE WHETHER FULL OR PART TIME. IF SELF-EMPLOYED CODE AS EMPLOYED FULL- OR PART-TIME**

- Working full-time (30+ hours a week)
- Working part-time (8-29 hours a week)
- Not working – looking for work
- Not working – not looking for work
- Full-time student
- Part-time student
- Retired
- Retired unpaid voluntary work
- Looking after family/home
- Other (TYPE IN)

---

Q5e The following question is being asked to understand how responses to the survey vary by income. Please note that, like all the information you've given me today, your answer is confidential and will be used for analysis purposes only.

Which of the following ranges best represents your household's total income from all sources (incl. earnings, pensions, benefits and tax credits) over the last 12 months? Please tell us the amount your household receives before anything is taken away for income tax, national insurance, council tax etc. **SHOW SCREEN**

- Under £4,999
- £5,000 to £9,999
- £10,000 to £14,999
- £15,000 to £19,999
- £20,000 to £29,999
- £30,000 to £39,999
- £40,000 to £49,999
- £50,000 to £74,999
- £75,000 or over

***ALLOW QUESTION TO NOT BE ANSWERED***

- 
- Q5f Which of the following best describes the occupation of the **main income earner** in your household? **SHOW SCREEN**
- Work in a profession; very senior manager in business or commerce; top-level civil servant; or self-employed with 25+ employees
  - Middle management executive in large organisation; principal officer in local government and civil service; or self-employed with 5-24 employees
  - Junior management; or self-employed with 1-4 employees (in addition to self)
  - Skilled manual worker; other manual worker with responsibility for other people; or self-employed with no employees
  - Semi-skilled worker; apprentice or trainee to skilled worker
  - Unemployed for less than 6 months
  - Unemployed for 6 months or more
  - Retired on private pension
  - Retired on state pension
  - None of above

---

Q5g **IF Q5f = 8 (RETIRED), OR 6 (UNEMPLOYED FOR LESS THAN 6 MONTHS):**

- Which of the following best describes the previous occupation of the **main income earner** in your household? **SHOW SCREEN**
- Work in a profession; very senior manager in business or commerce; top-level civil servant; or self-employed with 25+ employees
  - Middle management executive in large organisation; principal officer in local government and civil service; or self-employed with 5-24 employees
  - Junior management; or self-employed with 1-4 employees (in addition to self)
  - Skilled manual worker; other manual worker with responsibility for other people; or self-employed with no employees
  - Semi-skilled worker; apprentice or trainee to skilled worker
  - None of the above

- 
- Q6 We really appreciate the time that you have given us today. Would you be willing to be contacted again for clarification purposes or be invited to take part in further research by Accent, the CMA or another research company working for the CMA to help with this research? **SELECT ALL THAT APPLY**
- Yes, happy to be re-contacted by Accent
  - Yes, happy to be re-contacted by the CMA
  - Yes, happy to be re-contacted by another research agency working on behalf of the CMA
  - No, prefer not to be re-contacted

Thank you. This research was conducted under the terms of the MRS code of conduct and is completely confidential. If you would like to confirm my credentials or those of Accent please call the MRS free on 0500 396999.

**HAND OVER THE THANK YOU SLIP.**

Please can I take a note of your name and where we can contact you for quality control purposes?

Respondent first name:

Respondent surname:

Telephone:

Confirm telephone:

***Interviewer Confirmation***

I confirm that this interview was conducted under the terms of the MRS code of conduct and is completely confidential

Yes

No

**SYSTEM INFORMATION**

Time interview completed:

## Econometric analysis

1. The purpose of this appendix is to explain the methodology used for the CMA econometric analysis, present its main results and statistical tests, and our assessment of results of the analysis. We first discuss a performance concentration analysis (PCA) carried out by Poundland in the context of phase 1 of this merger inquiry (Poundland's econometric analysis).
2. The annex is organised into the following sections:
  - (a) Discussion of the approach taken by the parties in phase 1 submission.
  - (b) The hypothesis and analytical framework.
  - (c) Methodology.
  - (d) Data.
  - (e) Results of the main model.
  - (f) Results of extensions to the main model.
  - (g) Statistical tests of the results.
  - (h) Assessment of the results and testing.

### Poundland's econometric analysis

3. In its phase 1 submission, Poundland presented a PCA that sought to identify whether Poundland's margins<sup>1</sup> varied in local areas according to different levels of concentration. Poundland submitted that there did not appear to be a statistically significant effect on Poundland's margins from the presence of a 99p store in the local area. It submitted that these results suggested that:
  - (a) there was no anti-competitive effect arising from the merger; and
  - (b) the Parties were part of a wider economic market than just VGM retailers.
4. Poundland submitted that its PQRS offering was set nationally, ie set centrally and the same in each store regardless of local conditions in each market. It

---

<sup>1</sup> Poundland used two different measures of margin: the gross margin rate, defined as revenue less cost of goods sold less vouchers as a proportion of revenue; and the variable margin rate, defined as revenue less cost of goods sold, less vouchers, less wages, less other variable costs as a proportion of revenue. Throughout this section, 'margin' will refer to the margin used in the Poundland analysis.

submitted that the ability of the Parties' respective local stores to showed flexibility in their PQRS offering according to local competition was virtually nil. It submitted that simplicity and consistency were key to remaining competitive in the low margin business.

5. If PQRS is set nationally, then the gross and variable margins and ranges of products will not be determined at the local level. This implies that local store margins will not be determined by local competition. If correct, the Parties' business model implies that a PCA using gross or variable store margin as a dependent variable will not identify local demand conditions.
6. Poundland submitted that margins did vary from store to store because, for example, ranges varied according to the size of the store, different stores had different opening hours and staffing levels, margins varied across products, and different stores sold different mixes of products (based solely on differences in store size). It submitted that one could test whether there was a relationship between local concentration and margins.
7. However, Poundland also submitted that 'range is subject to constraints of store size, but this is itself unrelated to local competition'. Moreover, the opening hours and staffing levels may determine the quantity sold at a store, but if the range is not determined by local competition then they will not affect the average gross or variable margin. It follows that gross or variable margin cannot be used to identify levels of competitive constraint faced by individual stores.

### **Hypothesis and analytical framework**

8. Poundland submitted that the parameters of its competitive offering, PQRS, were determined at a national level. This implies that local store entry is unlikely to affect these parameters. In addition, prices are fixed at £1 or £0.99 and are therefore unaffected by local market structure.
9. The change in an incumbent's store revenues following a local entry or exit event (a 'local event') captures the effect of customers diverting from the incumbent store to the entrant, or from the exiting store to the remaining incumbent.
10. The analysis we carry out uses the revenue of a Poundland/99p store as a dependent variable as opposed to the store margin. It focuses on the difference in revenues (the 'revenue impact') before and after the local event. It seeks to identify whether there is a demand-side response to changes in local competition, and in so doing identifies which competitors have the

largest impact on Poundland/99p store revenue, and over what distances they impose this competitive constraint.<sup>2</sup>

11. We test whether local events by a specific retailer affect local store revenue of Poundland and 99p. In particular, we construct two models to identify:
  - (a) which firms impose competitive constraints on Poundland and 99p – we compare to see which firms have a significant impact on the sales of the observation stores (Model 1); and
  - (b) over what distances local competition affects sales – we compare the relative size of the estimated diversion for local events at different distances from the incumbent store to understand how the competitive effects change with distance (Model 2).

## Methodology

12. In principle, a comparison between the average revenue impact on Poundland's stores when party A enters with the average revenue impact when party B enters can indicate the difference in the strength of competition between Poundland and party A and Poundland and party B.
13. In practice, however, the difference in revenues before and after the event can be driven by a variety of factors other than a local event. We perform an econometric analysis to capture the effect of local events on revenues while controlling for other factors affecting the observed sales.

### Model 1

14. Model 1 seeks to test how local events by different firms affects revenues of Poundland and 99p. We control for the factors that do not change over time through a 'fixed effects' estimation. We estimate the following reduced form equation:

$$\log(R_{it}) = \alpha_i + \sum_{f=1}^F \beta_f SC_{ift} + \gamma_1 x_{1,t} + \gamma_2 x_{2,i,t} + \varepsilon_{it}$$

where  $R_{it}$  is the revenue of store  $i$  in month  $t$ ;  $\alpha_i$  is the store-fixed effect (store indicator);  $f$  is the fascia type (out of  $F$  types of fascia);  $SC_{ift}$  is the count of type  $f$  stores within the catchment area of 0.5 miles of store  $i$  at time  $t$ ;  $x_{1,t}$  is a set of time fixed effects, and  $x_{2,i,t}$  denotes whether observed store  $i$  was

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<sup>2</sup> Our approach differs from a traditional PCA analysis which is concerned more directly with higher prices and by extension consumer welfare.

closed for refurbishment at some point during month  $t$ . The error term  $\varepsilon_{it}$  captures other factors that affect revenues that are not captured by the explanatory variables.

15. The parameters of interest are  $\beta_f$ . These parameters approximate the percentage change in the incumbent firm's revenues immediately following a local event of a store of type  $f$ . The parameters may be different for each fascia type. The model treats entry and exit as equal but opposite events: if store  $f$  enters within the catchment area then  $SC_{ift}$  increases; if the store exits then  $SC_{ift}$  decreases. The model also assumes that each increase in the store count has the same effect on the observation store's revenue. If a parameter is estimated to be negative and significantly different from zero, it means that revenues decrease (increase) following entry (exit) and suggests that the observed store  $i$  competes with fascia  $f$ . We used the model to determine which fascias have a greater effect on revenue than others, in the 0.5 mile catchment area.

#### *Control variables in Model 1*

16. The store fixed effects,  $\alpha_i$ , capture the effect of all characteristics of the store that affect its revenues that do not vary by time ('time invariant'). For example, local area characteristics that determine the level of demand, or market structure to the extent that it is constant over time.
17. The time fixed effects  $x_{1,t}$  capture the effect of all time variant characteristics of a period that affect all of the stores' revenues in the same way. For example, it controls for seasonal surges in demand (such as the Christmas effect); and macroeconomic effects that affect the whole economy.
18. The dummy variable  $x_{it}$  captures whether a store was closed for refurbishment.  $x_{1,t} = 1$  if a shop  $i$  was closed for refurbishment for at least one week in a month  $t$  (but continued trading during the rest of that month),  $x_{1,t} = 0$  otherwise..
19. We estimate the model separately for Poundland stores and for 99p stores.<sup>3</sup> This allows us to estimate the impact of a local event separately for each fascia. We cluster standard errors at the store level, to account for the fact that revenues of a given store are likely to be correlated across time.

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<sup>3</sup> This does not include Family Bargains and 99p Plus stores because there were too few observation stores for the model to be tractable.

20. We used store count rather than fascia count. This includes expansion or contraction of a particular fascia within a store's catchment area as a local event, rather than just the fascia's entry or exit.

## Model 2

21. Model 2 seeks to identify at what distances local competition affects sales. We replaced a fascia count with the competitor set count. This keeps the model tractable and avoids overspecification that may lead to a loss of efficiency in our estimations. We estimate the following reduced form equation:

$$\log(R_{it}) = \alpha_i + \sum_{d=1}^D \sum_{c=1}^C \beta_{cd} CSC_{icdt} + \gamma_1 x_{1,t} + \gamma_2 x_{2,i,t} + \varepsilon_{it}$$

22. Where  $R_{it}$  is the revenue of store  $i$  at time  $t$ ;  $d$  is the straight line distance from the entering store to the observation store  $i$  (catchment area);  $\alpha_i$  is the store-fixed effect (store indicator);  $c$  is the competitor set type (out of  $C$  types of competitors' sets);  $CSC_{icdt}$  is the count of type  $c$  competitor set stores within the catchment area  $d$  of store  $i$  at time  $t$ ;  $x_{1,t}$  is a set of time fixed effects and  $x_{2,i,t}$  denotes whether store  $i$  was closed for refurbishment at some point during month  $t$ . The error term  $\varepsilon_{it}$  captures other factors that affect revenues that are not captured by the explanatory variables.
23. The parameters of interest are  $\beta_{cd}$ . Parameters  $\beta_{cd}$  approximate the percentage change in the incumbent firm's revenues immediately following a local event of a store belonging to competitor type  $c$  within a distance  $d$ . The parameters may be different for each competitor type and distance. The model treats entry and exit as equal but opposite events: if store  $c$  enters within the catchment area then  $CSC_{icdt}$  increases; if the store exits then  $CSC_{icdt}$  decreases. The model also assumes that each increase in the competitor set store count has the same effect on the observation store's revenue. If a parameter is estimated to be negative and significantly different from zero, it means that revenues decrease (increase) following entry (exit) and suggests that the observed store  $i$  competes with the competitor set  $c$  in a catchment area  $d$ .
24. We used the following catchment areas:
- Number of competitor set stores less than 0.5 miles of store  $i$ .
  - Number of competitor set stores between 0.5 miles and 1 mile of store  $i$ .
  - Number of competitor set stores between 1 mile and 2 miles of store  $i$ .

25. Table 1 summarises the grouping of stores into competitor sets.

**Table 1: Grouping of fascia into competitor sets in Model 2**

<i>Competitor set</i>	<i>Stores</i>
Large SPP retailers	Poundworld
Small SPP retailers	Max 99p, Sam 99p
VGM retailers	B&M, Bargain Buys, Home Bargains, Poundstretcher, Wilko, Family Bargains, 99p Plus
Local supermarkets	Sainsbury Local, Morrisons M Local, Tesco Express
Big supermarkets	Sainsbury, Morrisons, Tesco Extra, Tesco Metro, Tesco Superstore, Asda

Source: CMA.

26. Poundland and 99p were treated as separate competitor sets.

27. We estimated Model 2 separately for Poundland stores and for 99p stores. This allows us to estimate the impact of a local event separately for each fascia.

### *Control variables in Model 2*

28. Model 2 uses the same control variables as Model 1: store fixed effects  $\alpha_i$ , time fixed effects  $x_{1,t}$ , and a dummy variable  $x_{it}$  which captures whether a store was closed for refurbishment.

29. When we present our results, we also comment on the ‘statistical significance’ of the estimate. Estimates that are statistically insignificant are not sufficiently precise (in the statistical sense) to reject the possibility that there is no true relationship between sales and concentration (ie, the true value of  $\beta$  that we are trying to estimate is actually zero). We use a critical significance level of 95%.

### **Limitations**

30. Our analysis focuses on changes in store revenue. Since Poundland has submitted that its PQRS is set nationally, sales revenue is a good proxy for customers diverting to a new entrant or incumbent. Statistically significant and negative coefficients in Model 1 and Model 2 regressions suggest that entry of a particular fascia or competitor set are associated with a decrease in its stores’ revenues within a catchment area.

31. There may be other drivers of revenue that our specification does not control for; this does not bias the parameters of interest  $\beta_f$  or  $\beta_{cd}$  unless those drivers are also systematically related to entry or exit.

32. However, it is likely that the decision to open or close a store is partly driven by these same factors that are driving the incumbent’s revenues. By way of example, competitors are more likely to enter local markets where they expect

demand to grow; as a consequence we may observe, on average, no revenue impact following local entry because local demand increased at the same time as entry happened. Where we cannot observe the factors driving both revenues and local events, then our error term is correlated with our independent variable and we have a problem known as endogeneity.

33. A fixed effects framework allows us to remove time invariant endogeneity. However, we consider endogeneity could arise from time variant factors including the following:
- The time variant levels of local demand. Increases in local demand are likely to lead to simultaneously higher sales and greater entry. This is likely to cause a positive bias on our parameters of interest, because increased entry would be associated with an increase in sales, so we would underestimate the decrease in sales due to diversion to a competing firm.
  - Local incumbents might react to entry with short-term promotional or advertising activity. This would increase sales, and so mitigate the effect of entry on revenue. This is likely to lead to a positive bias on our parameters of interest since we would underestimate the decrease in sales due to diversion to a competing firm.
  - Changes in the PQRS of the incumbent store or competitors during the observation period (for example, changes in the range of products on offer, or store extensions). This may encourage or discourage expansion of rivals, and affect the sales that went to our observed firms. This has an ambiguous effect on our parameters of interest. We note that the Parties have submitted that there are no local changes in PQRS in their own stores. National changes in PQRS would be captured by the time fixed effects.
34. We conclude that the regressions are likely to suffer from a positive bias: negative coefficients may be underestimated in absolute values; the insignificant coefficients may be too biased towards zero to capture the true effect; and in some extreme cases we may have positive coefficients. Therefore, although we can only interpret and give weight to the statistically significant negative coefficients, we cannot have confidence in non-significant or significantly positive results.
35. The interpretation of a non-significant result is that our estimation is not precise enough to capture a statistically significant effect. Non-significance in statistical terms is a lack of evidence. This can be due to the following:

- The stores do not compete with the Parties and so there is no evidence to be found.
  - A statistically insignificant result may be due to our model being unable to measure this impact. For example, this may be due to there being a small number of local events. In such a case, while there might be a revenue impact, it may be masked by other variation within the dataset with the result that we do not find a statistically significant coefficient.
  - A statistically insignificant or a positive result may be due to a revenue effect. It is possible that the observed store has increased footfall as new consumers visit the observation store influenced by the presence of the entrant. Where there is a footfall effect, we cannot identify the size of the competitive effect of the entering firm.
36. We note that, as there are more observations of Poundland stores, and 99p's like-for-like store sales fluctuated greatly during the observation period, we have reason to put more weight on the results for Poundland than on those for 99p.
37. One final limitation is that the distances between stores are measured in straight line measurements by postcode. There may be local features that increase the travel time between stores that are physically close to one another. Additionally, postcodes are an imprecise measurement of location since one postcode can cover a large distance. Our analysis bands stores into distances, and these limitations will affect stores which are close to another band.

## **Data**

38. The two datasets used in our analysis are revenue data and market structure. These two datasets were combined into a panel where we observed the full history of monthly revenues and how many competing stores from each fascia there were, for each Poundland and 99p store over the last five years.
39. We obtained data on the locations, opening/closing dates, closures for refurbishment and sales of the Parties' stores from the Parties. We aggregated weekly revenue into monthly revenue to avoid weekly variation, which could add additional noise to our estimation. We obtained data on the location and opening/closing dates of third party stores from third parties. We approached the relevant parties for clarification whenever we identified problems with the data, such as missing data, duplicate entries, or non-matching postcodes.

40. We distinguished between the three fascia of 99p: 99p; 99p Plus; and Family Bargains. Since the fascia have different retail offers, it was possible that local events would have different impacts on their sales. There were not enough observations of Family Bargains and 99p Plus to use their sales as a dependent variable. The rest of this annex will use '99p' to refer to 99p stores as distinct from 99p Plus and Family Bargains stores.
41. We linked the location dataset to an Office of National Statistics (ONS) mapping of postcodes to geographic coordinates, and used trigonometry to find straight line distances between the Parties' stores and their competitors. Where the postcodes did not match the ONS database, we inputted the coordinates manually using another data source or corrected the postcode using public records of the street addresses given to us by the relevant party.

### Descriptive statistics

42. In this section we present descriptive statistics of the data used in our analysis.
43. We observed monthly revenue data from 596 Poundland stores and 221 99p stores for the 60 months between January 2010 and December 2014, if the shop was open and made positive sales. The average time the observed stores were opened for is 42 months (Poundland) and 45 months (99p).
44. Table 2 summarises information about sales in Poundland and 99p stores.

**Table 2: Summary statistics on Parties' stores**

<i>Fascia</i>	<i>Number of stores</i>	<i>Average sales per month (£000)</i>	<i>Sale standard deviation (£000)</i>	<i>Average months open</i>
Poundland	596	[ <del>⊗</del> ]	[ <del>⊗</del> ]	[ <del>⊗</del> ]
99p	221	[ <del>⊗</del> ]	[ <del>⊗</del> ]	[ <del>⊗</del> ]

Source: CMA analysis.

45. A fixed effect model requires a change in the number of competitors to identify the coefficients of interest. A greater number of observations of changes in the number of competitors increase the efficiency of the estimators. Tables 3, 4, 5 and 6 provide a summary of number of entries and exits of each fascia type or competitor set type stores at different distances.

**Table 3: Number of local events within 0.5 miles of Poundland stores**

<i>Fascia</i>	<i>Entry</i>	<i>Exit</i>	<i>All local events</i>
Asda	[X]	[X]	[X]
Asda Living	[X]	[X]	[X]
Bargain Buys	[X]	[X]	[X]
B&M	[X]	[X]	[X]
Home Bargains	[X]	[X]	[X]
Iceland	[X]	[X]	[X]
Max 99p	[X]	[X]	[X]
Morrisons	[X]	[X]	[X]
Morrisons M Local	[X]	[X]	[X]
99p	[X]	[X]	[X]
Family Bargains	[X]	[X]	[X]
99p Plus	[X]	[X]	[X]
Poundland	[X]	[X]	[X]
Poundstretcher	[X]	[X]	[X]
Poundworld	[X]	[X]	[X]
Sainsbury's	[X]	[X]	[X]
Sainsbury's Local	[X]	[X]	[X]
Sam 99p	[X]	[X]	[X]
Savers	[X]	[X]	[X]
Tesco Express	[X]	[X]	[X]
Tesco Extra	[X]	[X]	[X]
Tesco Homeplus	[X]	[X]	[X]
Tesco Metro	[X]	[X]	[X]
Tesco Superstore	[X]	[X]	[X]
Wilko	[X]	[X]	[X]
Total	923	107	1030

Source: CMA analysis.

**Table 4: Number of local events within 0.5 miles of 99p stores**

<i>Fascia</i>	<i>Entry</i>	<i>Exit</i>	<i>All local events</i>
Asda	[X]	[X]	[X]
Asda Living	[X]	[X]	[X]
Bargain Buys	[X]	[X]	[X]
B&M	[X]	[X]	[X]
Home Bargains	[X]	[X]	[X]
Iceland	[X]	[X]	[X]
Max 99p	[X]	[X]	[X]
Morrisons	[X]	[X]	[X]
Morrisons M Local	[X]	[X]	[X]
99p	[X]	[X]	[X]
Family Bargains	[X]	[X]	[X]
99p Plus	[X]	[X]	[X]
Poundland	[X]	[X]	[X]
Poundstretcher	[X]	[X]	[X]
Poundworld	[X]	[X]	[X]
Sainsbury's	[X]	[X]	[X]
Sainsbury's Local	[X]	[X]	[X]
Sam 99p	[X]	[X]	[X]
Savers	[X]	[X]	[X]
Tesco Express	[X]	[X]	[X]
Tesco Extra	[X]	[X]	[X]
Tesco Homeplus	[X]	[X]	[X]
Tesco Metro	[X]	[X]	[X]
Tesco Superstore	[X]	[X]	[X]
Wilko	[X]	[X]	[X]
Total	345	40	385

Source: CMA analysis.

46. There were no observations of Max 99p or 99p Plus entering or exiting within 0.5 miles of a 99p store, and so we could not identify the impact of their entry.

**Table 5: Number of local events at different distances from Poundland stores, by competitor sets**

Competitor set	0.5 miles		0.5-1 mile		1-2 miles	
	Entry	Exit	Entry	Exit	Entry	Exit
VGM retailers	[X]	[X]	[X]	[X]	[X]	[X]
Big supermarkets	[X]	[X]	[X]	[X]	[X]	[X]
Large SPP retailers	[X]	[X]	[X]	[X]	[X]	[X]
Local supermarkets	[X]	[X]	[X]	[X]	[X]	[X]
99p	[X]	[X]	[X]	[X]	[X]	[X]
Poundland	[X]	[X]	[X]	[X]	[X]	[X]
Small SPP retailer	[X]	[X]	[X]	[X]	[X]	[X]

Source: CMA analysis.

**Table 6: Local events at different distances from 99p stores, by competitor sets**

Competitor set	0.5 miles		0.5-1 mile		1-2 miles	
	Entry	Exit	Entry	Exit	Entry	Exit
VGM retailers	[X]	[X]	[X]	[X]	[X]	[X]
Large SPP retailers	[X]	[X]	[X]	[X]	[X]	[X]
Small SPP retailers	[X]	[X]	[X]	[X]	[X]	[X]
Poundland	[X]	[X]	[X]	[X]	[X]	[X]
99p	[X]	[X]	[X]	[X]	[X]	[X]
Local supermarkets	[X]	[X]	[X]	[X]	[X]	[X]
Big supermarkets	[X]	[X]	[X]	[X]	[X]	[X]

Source: CMA analysis.

47. We note that there was substantially more entry than exit during the observation period.

## Results

48. In this section we present the results of the models, estimated for: (A) Poundland stores; and (B) 99p stores. For all the results, the coefficients represent the approximate percentage change in sales of the store associated with an increase in the number of competitor stores.

## Model 1

**Table 9: Results of Model 1 for (A) Poundland stores and (B) 99p stores**

	(A)	(B)
Variables	<i>In_sales</i>	<i>In_sales</i>
Poundland	[X]* [X]	[X]* [X]
99p	[X]* [X]	[X]† [X]
Max 99p	[X]* [X]	
Sam 99p	[X]* [X]	[X] [X]
Family Bargains	[X] [X]	[X]† [X]
99p Plus	[X]* [X]	
Tesco Express	[X] [X]	[X] [X]
Tesco Metro	[X] [X]	[X]† [X]
Tesco Extra	[X] [X]	[X] [X]
Tesco Superstore	[X] [X]	[X] [X]
Tesco Homeplus	[X]* [X]	[X]* [X]
Asda	[X] [X]	[X] [X]
Asda Living	[X]* [X]	[X] [X]
B&M	[X]* [X]	[X]* [X]
Bargain Buys	[X]* [X]	[X]* [X]
Home Bargains	[X]* [X]	[X]‡ [X]
Iceland	[X] [X]	[X] [X]
Morrisons	[X] [X]	[X]† [X]
Morrisons M Local	[X] [X]	[X] [X]
Poundstretcher	[X] [X]	[X] [X]
Poundworld	[X]* [X]	[X]* [X]
Savers	[X] [X]	[X] [X]
Wilko	[X]† [X]	[X] [X]
Sainsbury's	[X] [X]	[X] [X]
Sainsbury's Local	[X]‡ [X]	[X] [X]
Refit	[X]† [X]	[X]† [X]
Constant	[X]* [X]	[X]* [X]
Observations	[X]	[X]
R-squared	[X]	[X]
Number of clusters	[X]	[X]

Source: CMA analysis.

Note: Robust standard errors in parentheses.

\*p<0.001.

†p<0.01.

‡p<0.05.

### *Poundland stores*

49. The following coefficients were negative and statistically significant at a 95% significance level, meaning we reject the hypothesis that the coefficient is zero with probability 95% or higher: Poundland; 99p; Max 99p; Sam 99p; 99p Plus; B&M; Bargain Buys; Home Bargains; Poundworld; and Wilko.
50. The following coefficients were positive and statistically significant at a 95% significance level: Tesco Homeplus, Sainsbury's Local and Asda Living.
51. Model 1 sought to identify which stores compete with Poundland and 99p. The results show that the following stores have the greatest effect on Poundland's sales: Poundland itself; 99p Plus; 99p; and Poundworld. Their entry is associated with a [X] % fall in Poundland's sales.
52. The following stores have an effect of an associated [X] % fall in sales after entry: Sam 99p; Bargain Buys; Home Bargains; Max 99p; and B&M.
53. The following stores have no statistically significant effect: Family Bargains; Tesco Express; Tesco Metro; Tesco Extra; Tesco Superstore; Asda; Iceland; Morrisons; Morrisons M Local; Poundstretcher; Savers; and Sainsbury's.

### *99p stores*

54. The following coefficients were negative and statistically significant at a 95% significance level: Poundland; 99p; Family Bargains; B&M; Bargain Buys; Home Bargains; Morrisons; and Poundworld.
55. The following coefficients were positive and statistically significant at a 95% significance level: Tesco Homeplus; and Tesco Metro.
56. The results show that the following stores have the greatest effect on 99p's sales: Bargain Buys; Poundland; Poundworld; B&M; Morrisons; and Family Bargains. Their entry is associated with a [X] % fall in 99p's sales.
57. The following stores have an effect of an associated [X] % fall in sales: 99p itself and Home Bargains.
58. The following stores have no statistically significant effect: Sam 99p; Tesco Express; Tesco Extra; Tesco Superstore; Asda; Asda Living; Iceland; Morrisons M Local; Poundstretcher; Savers; Wilko; Sainsbury's; and Sainsbury's Local. There were no local events involving Max 99p and 99p Plus, and so we cannot estimate their impact.

## Model 2

**Table 10: Results of Model 2 for (A) Poundland stores and (B) 99p stores**

		(A)	(B)
<i>Competitor set</i>	<i>Distance</i>	[ <del>⊗</del> ]	[ <del>⊗</del> ]
Poundland	< 0.5 mile	[ <del>⊗</del> ]* [ <del>⊗</del> ]	[ <del>⊗</del> ]* [ <del>⊗</del> ]
	0.5 mile < d < 1 mile	[ <del>⊗</del> ] [ <del>⊗</del> ]	[ <del>⊗</del> ] [ <del>⊗</del> ]
	1 mile < d < 2 miles	[ <del>⊗</del> ]* [ <del>⊗</del> ]	[ <del>⊗</del> ] [ <del>⊗</del> ]
99p	< 0.5 mile	[ <del>⊗</del> ]* [ <del>⊗</del> ]	[ <del>⊗</del> ]*† [ <del>⊗</del> ]
	0.5 mile < d < 1 mile	[ <del>⊗</del> ]*† [ <del>⊗</del> ]	[ <del>⊗</del> ] [ <del>⊗</del> ]
	1 mile < d < 2 miles	[ <del>⊗</del> ] [ <del>⊗</del> ]	[ <del>⊗</del> ] [ <del>⊗</del> ]
Large SPP retailers	< 0.5 mile	[ <del>⊗</del> ]* [ <del>⊗</del> ]	[ <del>⊗</del> ]* [ <del>⊗</del> ]
	0.5 mile < d < 1 mile	[ <del>⊗</del> ] [ <del>⊗</del> ]	[ <del>⊗</del> ] [ <del>⊗</del> ]
	1 mile < d < 2 miles	[ <del>⊗</del> ] [ <del>⊗</del> ]	[ <del>⊗</del> ] [ <del>⊗</del> ]
Small SPP retailers	< 0.5 mile	[ <del>⊗</del> ]* [ <del>⊗</del> ]	[ <del>⊗</del> ] [ <del>⊗</del> ]
	0.5 mile < d < 1 mile	[ <del>⊗</del> ]*† [ <del>⊗</del> ]	[ <del>⊗</del> ]*‡ [ <del>⊗</del> ]
	1 mile < d < 2 miles	[ <del>⊗</del> ] [ <del>⊗</del> ]	[ <del>⊗</del> ] [ <del>⊗</del> ]
VGM retailers	< 0.5 mile	[ <del>⊗</del> ]* [ <del>⊗</del> ]	[ <del>⊗</del> ]* [ <del>⊗</del> ]
	0.5 mile < d < 1 mile	[ <del>⊗</del> ]*† [ <del>⊗</del> ]	[ <del>⊗</del> ] [ <del>⊗</del> ]
	1 mile < d < 2 miles	[ <del>⊗</del> ] [ <del>⊗</del> ]	[ <del>⊗</del> ] [ <del>⊗</del> ]
Local supermarkets	< 0.5 mile	[ <del>⊗</del> ]*‡ [ <del>⊗</del> ]	[ <del>⊗</del> ] [ <del>⊗</del> ]
	0.5 mile < d < 1 mile	[ <del>⊗</del> ] [ <del>⊗</del> ]	[ <del>⊗</del> ] [ <del>⊗</del> ]
	1 mile < d < 2 miles	[ <del>⊗</del> ]* [ <del>⊗</del> ]	[ <del>⊗</del> ] [ <del>⊗</del> ]
Big supermarkets	< 0.5 mile	[ <del>⊗</del> ] [ <del>⊗</del> ]	[ <del>⊗</del> ] [ <del>⊗</del> ]
	0.5 mile < d < 1 mile	[ <del>⊗</del> ]*† [ <del>⊗</del> ]	[ <del>⊗</del> ] [ <del>⊗</del> ]
	1 mile < d < 2 miles	[ <del>⊗</del> ] [ <del>⊗</del> ]	[ <del>⊗</del> ]*‡ [ <del>⊗</del> ]
Refit		[ <del>⊗</del> ]* [ <del>⊗</del> ]	[ <del>⊗</del> ]*† [ <del>⊗</del> ]
Constant		[ <del>⊗</del> ]* [ <del>⊗</del> ]	[ <del>⊗</del> ]* [ <del>⊗</del> ]
Observations		25,162	9,982
R-squared		0.762	0.660
Number of clusters		596	221

Source: CMA analysis.

Note: Robust standard errors in parentheses.

\*p<0.001.

†p<0.01.

‡p<0.05.

59. For Poundland, the coefficients associated with the following competitor sets are negative and statistically significant at 95% significance level:
- Within 0.5 miles:
    - Poundland;
    - 99p;
    - large SPP retailers;
    - small SPP retailers;
    - VGM retailers; and
    - local supermarkets.
  - 0.5 miles to 1 mile:
    - 99p;
    - VGM retailers; and
    - big supermarkets.
  - 1 to 2 miles:
    - Poundland.
60. The coefficients associated with the following competitor sets are positive and statistically significant at the 95% significance level:
- Within 0.5 miles:
    - local supermarkets.
  - 0.5 miles to 1 mile:
    - small SPP retailers.
61. For 99p stores, the following coefficients are negative and statistically significant:
- Within 0.5 miles:
    - Poundland;
    - 99p;

- large SPP retailers; and
- VGM retailers.
- 0.5 to 1 mile:
  - small SPP retailers.
- 1 to 2 miles:
  - big supermarkets.

62. Model 2 sought to identify at what distances stores compete with Poundland and 99p. The results show that most stores compete with Poundland and 99p in the 0.5 miles radius, and in general the impact is greater within 0.5 miles, than between 0.5 miles and 1 mile.<sup>4</sup>

### Extension of our analysis

63. We first extended our analysis by looking at the impact of local events at a smaller distances than 0.5 miles. We ran Model 2 again using the following values of  $d_i$ :

- $d_i = 1$  if the distance from store  $i$  is less than 0.25 miles.
- $d_i = 2$  if the distance from store  $i$  is between 0.25 miles and 0.5 miles.
- $d_i = 3$  if the distance from store  $i$  is between 0.5 miles and 0.75 miles.
- $d_i = 4$  if the distance from store  $i$  is between 0.75 miles and 1 mile.

64. The results of the regression are shown in Table 11.

**Table 11: Results of regression at 0.25 miles distance intervals for (A) Poundland stores and (B) 99p stores**

Competitor set	Distance	(A)	(B)
		$\ln\_sales$	$\ln\_sales$
Poundland	< 0.25 mile	[X]*	[X]*
		[X]	[X]
	0.25 mile < d < 0.5 mile	[X]*	[X]
		[X]	[X]
0.5 mile < d < 0.75 mile	[X]	[X]	
	0.75 mile < d < 1 mile	[X]	[X]
99p	< 0.25 mile	[X]*	[X]*
		[X]	[X]
	0.25 mile < d < 0.5 mile	[X]‡	[X]‡
		[X]	[X]
	0.5 mile < d < 0.75 mile	[X]	[X]
		[X]	[X]

<sup>4</sup> See Table 15 for the results of testing the hypothesis that the impact of a local event is the same within 0.5 miles as between 0.5 miles and 1 mile.

		(A)	(B)
<i>Competitor set</i>	<i>Distance</i>	<i>ln_sales</i>	<i>ln_sales</i>
	0.75 mile < d < 1 mile	[∞]† [∞]	[∞] [∞]
Large SPP retailers	< 0.25 mile	[∞]† [∞]	[∞]* [∞]
	0.25 mile < d < 0.5 mile	[∞] [∞]	[∞] [∞]
	0.5 mile < d < 0.75 mile	[∞] [∞]	[∞] [∞]
	0.75 mile < d < 1 mile	[∞]‡ [∞]	[∞] [∞]
Small SPP retailers	< 0.25 mile	[∞]† [∞]	[∞] [∞]
	0.25 mile < d < 0.5 mile	[∞] [∞]	[∞] [∞]
	0.5 mile < d < 0.75 mile		[∞]* [∞]
	0.75 mile < d < 1 mile	[∞] [∞]	
VGM retailers	< 0.25 mile	[∞]* [∞]	[∞]* [∞]
	0.25 mile < d < 0.5 mile	[∞]‡ [∞]	[∞]* [∞]
	0.5 mile < d < 0.75 mile	[∞] [∞]	[∞] [∞]
	0.75 mile < d < 1 mile	[∞]‡ [∞]	[∞]* [∞]
Local supermarkets	< 0.25 mile	[∞] [∞]	[∞] [∞]
	0.25 mile < d < 0.5 mile	[∞] [∞]	[∞] [∞]
	0.5 mile < d < 0.75 mile	[∞] [∞]	[∞] [∞]
	0.75 mile < d < 1 mile	[∞] [∞]	[∞] [∞]
Big supermarkets	< 0.25 mile	[∞] [∞]	[∞] [∞]
	0.25 mile < d < 0.5 mile	[∞] [∞]	[∞]‡ [∞]
	0.5 mile < d < 0.75 mile	[∞] [∞]	[∞] [∞]
	0.75 mile < d < 1 mile	[∞] [∞]	[∞] [∞]
Refit		[∞]* [∞]	[∞]† [∞]
Constant		[∞]* [∞]	[∞]* [∞]
Observations		[∞] [∞]	[∞] [∞]
R-squared		[∞] [∞]	[∞] [∞]
Number of clusters		[∞] [∞]	[∞] [∞]

Source: CMA analysis.

Note: Robust standard errors in parentheses.

\*p<0.001.

†p<0.01.

‡p<0.05.

65. In the case of Poundland, the following coefficients are negative and statistically significant at 95% significance level:

- Within 0.25 miles:
  - Poundland;
  - 99p;
  - large SPP retailers;
  - small SPP retailers; and
  - VGM retailers.
- 0.25 to 0.5 miles:
  - 99p;
  - Poundland; and
  - VGM retailers.
- 0.75 miles to 1 mile:
  - 99p;
  - large SPP retailers;
  - VGM retailers; and
  - local supermarkets.

66. In the case of 99p stores, the following coefficients are negative and statistically significant:

- Within 0.25 miles:
  - Poundland;
  - 99p;
  - large SPP retailers; and
  - VGM retailers.
- 0.25 to 0.5 miles:
  - 99p;

- VGM retailers; and
    - big supermarkets.
  - 0.75 miles to 1 mile:
    - VGM retailers.
67. As the distance from the Parties' stores increases, fewer competitor sets have statistically significant coefficients.
68. The second extension to the model addresses the concern that although Models 1 and 2 show a large impact of a local event involving 99p on Poundland's revenue, this impact may have been short-term. For example, if we observed only three months of sales after the entry of a competitor, we may not be estimating the long-term effect of entry.
69. In order to address this concern, we re-estimated Model 1 using only the Poundland stores where the entry and exit of a 99p store occurred between 2011 and 2013 to allow: (A) 12 months of observations before and after the 99p store entered or exited; and (B) 18 months of observations before and after the 99p store entered and exited. We performed this regression for Poundland store sales as a dependent variable only. We did not repeat this for each competing fascia because this would reduce our sample size and affect the efficiency of our estimators.
70. The results of the second extension are shown in Table 12.

**Table 12: Results of the second extension when (A) 12 months and (B) 18 months are allowed before and after entry or exit**

	(A)	(B)
<i>Fascia</i>	<i>ln_sales</i>	<i>ln_sales</i>
Poundland	[X]* [X]	[X]* [X]
99p	[X]* [X]	[X]* [X]
Max 99p	[X]* [X]	[X]* [X]
Sam 99p	[X]* [X]	[X]* [X]
Family Bargains	[X] [X]	[X] [X]
99p Plus	[X]* [X]	[X]* [X]
Tesco Express	[X] [X]	[X] [X]
Tesco Metro	[X] [X]	[X] [X]
Tesco Extra	[X] [X]	[X] [X]
Tesco Superstore	[X] [X]	[X] [X]
Tesco Homeplus	[X]* [X]	[X]* [X]
Asda	[X] [X]	[X] [X]
Asda Living	[X]* [X]	[X]* [X]
B&M	[X]* [X]	[X]* [X]
Bargain Buys	[X]* [X]	[X]† [X]
Home Bargains	[X]* [X]	[X]* [X]
Iceland	[X] [X]	[X] [X]
Morrisons	[X] [X]	[X] [X]
Morrisons M Local	[X] [X]	[X] [X]
Poundstretcher	[X] [X]	[X] [X]
Poundworld	[X]* [X]	[X]* [X]
Savers	[X] [X]	[X] [X]
Wilko	[X]† [X]	[X]† [X]
Sainsbury's	[X] [X]	[X] [X]
Sainsbury's Local	[X]‡ [X]	[X]‡ [X]
Refit	[X]† [X]	[X]† [X]
Constant	[X]* [X]	[X]* [X]
Observations	[X]	[X]
R-squared	[X]	[X]
Number of clusters	[X]	[X]

Source: CMA analysis.

Note: Robust standard errors in parentheses.

\*p<0.001.

†p<0.01.

‡p<0.05.

71. Table 12 shows that the same coefficients are statistically significant and have negative values as in Table 9 in (A): Poundland; 99p; Max 99p; Sam 99p; 99p Plus; B&M; Bargain Buys; Home Bargains; Poundworld; and Wilko.

### Statistical tests of the results

72. In this section we present the results of testing for differences between the regression coefficients of Model 2 and the extension to Model 2. We performed two tailed Wald tests to see if we could reject the hypothesis that the following coefficients were equal, at a 95% confidence level. Where we can reject a two tailed hypothesis at 95% confidence, we can reject the one tailed hypothesis that one of the coefficients is less than or equal to the other at greater than 95% confidence and so we report the larger (more negative) coefficient. The results are summarised in Tables 13 to 15.

**Table 13: Results of testing for differences between regression coefficients in Model 2 for stores located within 0.5 miles of Poundland stores**

<i>Coefficient</i>	<i>99p</i>	<i>Large SPP retailers</i>	<i>Small SPP retailers</i>	<i>VGM retailers</i>
<i>99p</i>				
Large SPP retailers	Not different			
Small SPP retailers	Not different	Not different		
VGM retailers	99p larger*	Large SPP retailers larger*	Not different	
Local supermarkets	99p larger*	Large SPP retailers larger*	Small SPP retailers larger*	VGM retailers larger*
Big supermarkets	99p larger*	Large SPP retailers larger*	Small SPP retailers larger*	VGM retailers larger*

Source: CMA analysis.

\*p<0.01.

**Table 14: Results of testing for differences between regression coefficients in Model 2 for stores located within 0.5 miles of 99p stores**

<i>Coefficient</i>	<i>Poundland</i>	<i>Large SPP retailers</i>	<i>Small SPP retailers</i>	<i>VGM retailers</i>
<i>Poundland</i>				
Large SPP retailers	Not different			
Small SPP retailers	Poundland larger*	Large SPP retailers larger†		
VGM retailers	Poundland larger*	Not different	Not different	
Local supermarkets	Poundland larger*	Large SPP retailers larger*	Not different	VGM retailers larger*
Big supermarkets	Poundland larger*	Large SPP retailers larger‡	Not different	Not different

Source: CMA analysis.

\*p<0.01.

†p<0.025.

‡p<0.05.

**Table 15: Results of testing for differences between regression coefficients in stores within 0.25 miles of Parties' stores and 0.5 miles (extension to Model 2) and between 0.5 miles of Parties' stores and within 0.5 to 1 mile of Parties' stores (Model 2)**

Coefficient	0.25 miles vs 0.25-0.5 miles		0.5 miles vs 0.5-1 mile	
	Poundland	99p	Poundland	99p
Other merging party	Not different	Not different	Not different	Within 0.5 miles larger*
Large SPP retailers	Within 0.25 miles larger‡	Not different	Within 0.5 miles larger‡	Within 0.5 miles larger‡
Small SPP retailers	Not different	Not different	Within 0.5 miles larger*	Not different
VGM retailers	Within 0.25 miles larger*	Not different	Within 0.5 miles larger*	Not different
Local supermarkets	Not different	Not different	Not different	Not different
Big supermarkets	Not different	Not different	Not different	Not different

Source: CMA analysis.

\*p<0.01.

‡p<0.025.

‡p<0.05.

## Assessment of results and testing

73. In this section, we comment on the impacts of the particular competitor sets on Poundland's and 99p's sales, and on distances where this impact is the strongest.

### Assessment of the impact of the Parties

#### Competitor set

74. Table 13 shows that a local event by 99p has a statistically significantly larger impact on Poundland's sales than a local event by a VGM retailer, or a large or local supermarket. However, it does not have a statistically significantly larger impact than a local event by a large or small SPP retailer.

75. Table 14 shows that a local event by Poundland has a statistically significantly larger impact on 99p's sales than a local event by a small SPP retailer, a VGM retailer, or a local or big supermarket. However, it does not have a statistically significantly larger impact than a local event by another large SPP retailer.

76. The extension to Model 1 shows that the finding that 99p competes strongly with Poundland is robust to the exclusion of observed stores with fewer than 12 months of sales before and after the local event.

#### Distance

77. Table 15 shows that a local event by a 99p store within 0.5 miles does not have a statistically significantly different impact on Poundland's stores than the same store between 0.5 miles and 1 mile. It shows that a local event by a Poundland store does have a statistically significantly larger impact on a 99p store's sales if it is within 0.5 miles than if it is between 0.5 and 1 mile.

78. Table 15 shows that there is no significant difference between the impact of a local event from the other merging parties if it is less than 0.25 and 0.5 miles.
79. Our assessment of the econometric evidence is that the Parties compete most strongly with each other and with the large SPP retailers, and that these stores have a larger effect at 0.5 miles than between 0.5 miles and 1 mile.

### ***Impact of other large SPP retailers***

#### *Competitor set*

80. Table 13 shows that a local event by a large SPP retailer has a statistically significantly larger impact on Poundland's sales than a local event by a VGM retailer or a big or local supermarket. However, it does not have a statistically significantly larger impact than a local event by a small SPP retailer.
81. Table 14 shows that a local event by a large SPP retailer has a statistically significantly larger impact on 99p's sales than a local event by a small SPP retailer or a local or big supermarket. However, it does not have a statistically significantly larger impact than a local event by a VGM retailer.

#### *Distance*

82. Table 15 shows that a local event by a large SPP retailer within 0.5 miles has a statistically significantly larger impact on the Parties' stores than the same store between 0.5 miles and 1 mile.
83. Table 15 shows that large SPP retailers have a larger impact on Poundland's stores if their local event is within 0.25 miles and 0.5 miles.

### ***Impact of small SPP retailers***

#### *Competitor set*

84. Table 13 shows that a local event by a small SPP retailer has a statistically significantly larger impact on Poundland's sales than a local event by a big or local supermarket. However, it does not have a statistically significantly larger impact than a local event by a large or small SPP retailer.
85. Table 14 shows that we cannot reject the hypothesis that a local event by a small SPP retailer has the same impact on 99p's sales as a local event by a big or local supermarket.

### *Distance*

86. Table 15 shows that a local event by a small SPP retailer within 0.5 miles has a statistically significantly larger impact on Poundland's stores than the same store between 0.5 and 1 mile. We cannot reject the hypothesis that it has the same impact on 99p's stores within 0.5 miles and between 0.5 miles and 1 mile.
87. Table 15 shows that there is no evidence to small SPP retailers have a different impact if their local event is within 0.25 miles and 0.5 miles.
88. Our assessment of the econometric evidence is that small SPP retailers do not have a larger impact on the Parties than the VGM retailers. For both stores, we assess that the critical area for local events is within 0.5 miles.

### ***Impact of VGM retailers***

#### *Competitor set*

89. Table 13 shows that a local event by a VGM retailer has a statistically significantly larger impact on Poundland's sales than a local event by a local or big supermarket.
90. Table 14 shows that a local event by a VGM retailer has a statistically significantly larger impact on 99p's sales than a local event by a local supermarket. However, it does not have a statistically significantly larger impact than a local event by a big supermarket.
91. Table 9 shows that most of the individual VGM retailers have an impact on Poundland's sales that is significantly different from zero. The two exceptions are Family Bargains and Poundstretcher. Most of the VGM retailers have a significant impact on 99p stores, with the exception of Wilko and Poundstretcher.

### *Distance*

92. Table 15 shows that a local event by a VGM retailer within 0.5 miles has a statistically significantly larger impact on Poundland's stores than the same store between 0.5 and 1 mile. We cannot reject the hypothesis that a local event by a VGM retailer has the same impact on 99p's stores within 0.5 miles and between 0.5 miles and 1 mile.
93. Table 15 shows that a local event by a VGM retailer has a larger impact on Poundland's sales if it is within 0.25 miles than between 0.25 miles and 0.5 miles. However, we cannot reject the hypothesis that a local event by a

VGM retailer has the same impact on 99p's stores within 0.25 miles and between 0.25 miles and 0.5 miles.

94. Our assessment of the econometric evidence is that VGM retailers are a small competitive constraint on the Parties.

***Impact of big and local supermarkets***

95. Poundland submitted that our analysis of the evidence of the impact of big and local supermarkets in this entry/exit econometric analysis was superficial and at odds with common sense. Poundland's interpretation of the lack of significance associated with a big or local supermarket local event is that it is intuitive that an entry of a big or local supermarket produces a boost to footfall, which would produce a boost in sales. It submitted that the fact no such boost was observed was a clear indication of a converse negative effect on sales due to the new competitive constraint from the big or local supermarket.
96. Tables 9, 10 and 11 show that local events by most of the big and local supermarkets do not have statistically significant negative effects on the Parties' sales. As discussed above, the absence of a statistically significant negative impact on sales is difficult to interpret. In particular, the absence of a statistically significant negative effect or a significant but positive effect resulting from the entry of local or big supermarkets may be caused by the opposite effects of the increase in footfall and therefore total retail revenue in the local area that such entry generates and impact on a given retailer's share of sales of increased competition. In this analysis, we are therefore unable to identify the impact of a local event by a local or big supermarket.

## Conclusion

97. The main results of our analysis are the following:
- (a) There is evidence that a local event by the Parties or the other large SPP retailers has a greater impact on the Parties than a local event by the VGM retailers or the small SPP retailers.
  - (b) There is no evidence that a local event by the small SPP retailers has a larger effect on the Parties than a local event by the VGM retailers.
  - (c) There is evidence that local events by most of the VGM retailers have a significant effect on one or both of the Parties. The exception is Poundstretcher, which does not have a significant effect on either Party.
  - (d) There is evidence that a local event for most retailers within 0.5 miles has a larger effect than a local event between 0.5 miles and 1 mile.

## Incentive to vary local parameters of competition

### Framework

#### *Introduction*

1. The Parties seek to attract customers to their stores and those customers typically shop in local retail outlets within a given travel time from their home or work.
2. The Parties set their customer offering against the traditional retailer metrics of PQRS. As the Parties generally use a single pricing point, the effective price of the products they sell is mainly determined by the products' pack sizes.
3. Poundland submitted that, while customers might choose between offerings on a local basis, the Parties did not vary any parameters of competition locally but rather set all parameters of competition in a uniform way across all of their stores. If this is the case, any market power that would otherwise be derived from a loss of local competition would be constrained by the need to maintain a national policy, and consequently by the competition they face in other areas in aggregate. In this case, it would be appropriate to assess the effects of the merger solely in aggregate rather than also individually each local area.<sup>1</sup>
4. In this appendix, we therefore consider whether the merger may create the incentive for the Parties to vary parameters of competition locally following the merger.

#### **PQRS**

5. The Parties submitted that all PQRS parameters (including range, pack size, store layout and staffing) were set centrally in a uniform way across all local areas and consequently that the appropriate geographic scope for assessing the merger was national rather than local.
6. To assess this submission we have considered below:
  - (a) the extent to which the Parties currently vary PQRS locally; and

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<sup>1</sup> However, note that such an assessment would still be informed by the local geographic definition.

(b) whether the merger may create the incentive for the Parties to vary PQRS locally following the merger.

7. In addition, we considered whether the closure of stores would justify looking at the impact of the merger at a local level.

### **Store closure**

8. At phase 1, the CMA considered that incentives to close stores may arise as a result of any loss of local competition from the merger. Store opening and closure is necessarily a parameter of competition that is varied locally. On this basis, the CMA did not consider it necessary to conclude at phase 1 on whether there may be the incentive to vary other parameters (including PQRS) locally following the merger.
9. We have considered further whether store closure in local areas would be justification for assessing the impact of the merger at a local level even if all other parameters of competition would not be varied at a local level.
10. The Parties' incentives to compete arise from their ability to attract local customers from local rivals. The incentive to close a store would arise from the proportion of customers that would divert to the other Party's store in the event of closure. In this sense, the incentive to close a store could be said to arise as a result of a loss of local rivalry. However, if Poundland set all other parameters of competition at a national level post-merger, in the event of store closure, the remaining store would continue to be constrained by this national policy (and so effectively by the competition faced in all other local areas in aggregate). So in this sense, rivalry (on other parameters of competition) may not be materially affected.
11. Assuming that there would not be a material impact on competition over other parameters were these to be set solely nationally following the merger, we have considered what the impact on consumer welfare of store closures would be. We note the precedent from Sports Direct/JJB Sports.<sup>2</sup> In that case, the Competition Commission found that five Sports Direct stores had been closed since the merger and that these stores would not have closed absent the merger. However, it found that the closure of these stores had not resulted in a significant effect on consumers as the average distance between the relevant Sports Direct and JJB stores was only 0.22 miles, and as a result the reduction in convenience from increased travel time was small.<sup>3</sup>

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<sup>2</sup> A report on the acquisition by Sports Direct International plc of 31 stores from JJB Sports plc (16 March 2010).

<sup>3</sup> Sports Direct International and JJB Sports (16 March 2010), paragraphs 8.23–8.27.

12. In this case, the average distance between the Parties' stores in overlap areas is similarly small ([✂]). On this basis, it appears unlikely that material harm would arise from store closure as a result of increased travel time.
13. We consider that convenience in terms of travel time may only be one aspect of customer preference through which customer welfare could be harmed by store closure. More generally, harm to customers could also arise if the store that is closed is substantially differentiated from the remaining alternatives in other aspects of customer preference. For example, if customers particularly value the range or service available at the closed store they may suffer material harm if they have to switch to an alternative that is, in their view, inferior. However, we note that in this case the Parties are relatively undifferentiated in what are likely to be the other key aspects affecting customer preferences. In particular, they are very similar in terms of range, pricing, store layout, staffing and opening hours. Further, we note that Poundland has plans to rebrand the entire 99p store estate as Poundland stores. As such, harm to customers from a reduction in choice available (with the exception of increased travel time) would occur even in the absence of a loss of rivalry resulting in store closure.
14. It does not appear that store closure is likely to result in material consumer harm, and this would therefore not be standalone justification for assessing the impact of the merger at a local level if all other parameters of competition would not be varied at a local level following the merger.

### **Incentive to flex PQRS locally**

15. We first consider the extent to which the Parties have varied PQRS locally in the past. If the Parties have locally varied PQRS to a material degree in the past, then we consider that they would be likely to continue to do so in the future.

### ***Evidence on the Parties' pre-merger approach to setting PQRS***

16. We consider below the following parameters of competition:
  - (a) Pricing.
  - (b) Range and pack size.
  - (c) Quality and service, comprising refits and refurbishment, staffing and opening hours.
17. We have primarily focused on evidence relating to Poundland's current approach, in part as it has provided us with materially more information, but

also as we consider its approach to be more relevant given it will acquire 99p stores and its intention is to operate the 99p stores network of stores under the Poundland brand.

## *Pricing*

### *Poundland*

18. Poundland submitted that it operated a national pricing strategy at a £1 single price point across the country. Poundland has operated at the same £1 price point for 25 years. Poundland submitted that [nearly all] of its products were sold at the £1 price point for FY15.
19. Poundland submitted that the SPP brought transparency to its offer and engendered trust with customers. Poundland had deviated from its fundamental £1 proposition in relation to situations where:
  - (a) customers were given a 'deal' if they spent a minimum amount in a store;
  - (b) markdowns were necessary due to time-sensitive or damaged stock; or
  - (c) there was a limited trial sale of a product at its face value.
20. In addition, Poundland had over the course of the last two and a half years trialled a small number of promotional events in an attempt to disrupt the initial entry of a new competitor to the market. Poundland submitted that these initiatives had only taken place for a short period of time and accounted for only [redacted] of Poundland's total net sales over the period (FY13 to FY15). The trials had taken place at [less than 50] stores (out of 533 in total, ie [redacted] of stores).<sup>4</sup>
21. Poundland submitted that trials had begun at the start of FY12 [redacted]:
  - (a) [redacted]
  - (b) [redacted]
  - (c) [redacted]
  - (d) [redacted]
22. Two trials offered a reduction in price proposition ranging between [redacted]. A range of different variations were trialled to understand any differences in

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<sup>4</sup> [redacted]

effectiveness, including different discounts, applicability across the store vs specific categories and products, and different durations. The two price proposition trials ran across [REDACTED] stores. [REDACTED]

23. As noted above, Poundland submitted that it had carried out these promotional events in order to disrupt the entry of competitors into the local markets. It provided the identity of the relevant competitor, or competitors, who had entered in each area. Of the [REDACTED] areas, [REDACTED] was the entrant in [REDACTED] areas (in [REDACTED] of these areas it was one of two entrants, and in the other [REDACTED] it was the only entrant). [REDACTED] was the entrant in [REDACTED] areas (in [REDACTED] of these it was one of two entrants). [REDACTED] was one of two entrants in [REDACTED] area. [REDACTED] ([REDACTED]) was the entrant in [REDACTED] area.
24. Poundland submitted that after a period of time it had been decided to end these promotional trials with management ultimately concluding that [REDACTED].
25. We asked Poundland to submit internal documents or any other evidence supporting these points. In response, Poundland did not supply internal documents, but submitted that [REDACTED]:
  - (a) [REDACTED]
  - (b) [REDACTED]
  - (c) [REDACTED]
  - (d) [REDACTED]
26. In addition, Poundland submitted that [REDACTED].

99p
27. 99p sells the majority of its products at the 99p pricing point.<sup>5</sup> It submitted that its pricing policy was a national strategy with no continual regional variations, and that stores did not have any local autonomy to vary pricing.
28. 99p makes some exceptions to the 99p pricing point at a national level. A number of lines are sold at lower than 99p; for example, a 1kg bag of sugar has a permanent price of 89p. 99p also has a number of 'multi-buys', including a mix and match range of snack-size lines at either three for 99p or two for 99p covering over 200 SKUs.<sup>6</sup> 99p also runs some national promotions: it has a monthly promotional plan that is signed off by the buying

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<sup>5</sup> See paragraph 29.

<sup>6</sup> [REDACTED]

and marketing departments and the 99p board, consisting mainly of feature fixture end displays and in fixture displays.<sup>7</sup>

29. As a result, the majority of products are sold at the 99p price point, although a growing proportion are sold below this point. Since 2011, the percentage of products sold at below the 99p price point has grown from [REDACTED] in 2015.
30. Similarly to Poundland, 99p has changed prices locally in the past on occasions. 99p submitted that this was limited to the following:
- (a) [REDACTED] stores had held a promotional 80p weekend. [REDACTED]
  - (b) A short-term promotional trial at [REDACTED] other stores that had involved a 95 pence price.<sup>8</sup>
  - (c) Closing-down sales at [REDACTED] stores during which products had been sold at 60 pence.
  - (d) [REDACTED] promotional events for the purpose of which products had been sold at 97 pence in [REDACTED] stores and 94 pence in the remaining [REDACTED] stores. [REDACTED]
  - (e) [REDACTED] stores had conducted short-term trial promotions in the context of new store openings, with [REDACTED] offering products for 96 pence, [REDACTED] stores offering products for 97 pence and [REDACTED] further stores offering products for 92 pence. [REDACTED]
31. In relation to 99p's submission that [REDACTED] rather than local competition, we consider that it may not be possible to disentangle the impact of competition from [REDACTED]. In other words, it is possible that [REDACTED] related to competition even if 99p reacted solely to the impact [REDACTED] rather than explicitly to competition. In this respect, we note that all stores selected for a promotional weekend overlapped with Poundland stores. In all but one of these stores, the 99p promotion overlapped with a Poundland pricing promotion.

## *Range*

### *Poundland*

32. Poundland submitted that it operated a highly uniform, national approach to the planning of stores, and the allocation of space by product category. This was true for both the allocation of space by product category and for the

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<sup>7</sup> [REDACTED]

<sup>8</sup> [REDACTED]

range of products that each store offers. Individual category bay plans were set nationally.

33. [X] This plan is the same for all stores within a given inventory group, and does not vary at a local level.
34. Each bay plan contains [X]. [X]
35. Poundland does [X]. Any requests for changes to store plans [X]. [X]
36. We asked Poundland to explain the reasons for these changes. In response Poundland submitted that they were not motivated by factors related to competition and were not themselves competitively significant as shown by the list at Table 1 below.

**Table 1: Reasons for Poundland store layout changes**

<i>Store number</i>	<i>Store</i>	<i>Reason for change</i>	<i>Number of bays changed</i>	<i>Date changed</i>
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]

Source: Poundland

37. [X]
38. We asked Poundland whether there was any flexibility to change the categorisation of stores, for example by reducing their size by allocating greater space to storage, and whether there had been any cases where a store had changed categorisation. Poundland responded that it would be commercially irrational for the business to reduce the amount of sales space in any location, and therefore this was not something that Poundland had considered. [X]
39. Using the data submitted as part of Poundland’s econometric analysis, we considered the local variation in Poundland’s gross margins<sup>9</sup> as evidence of the extent to which Poundland currently varies the range and pack size of products available at each store (given the minimal variation in pricing). In

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<sup>9</sup> ‘Gross margin’ is defined as ‘net sales’ less product cost and cost of vouchers redeemed at store. Data on gross margin for FY14 was used.

addition, we note that a degree of variation is likely to arise as a result of differences across local areas in customer demand for the range of Poundland's products (across which there is some variation in gross margins) – in other words, in some areas customers may buy relatively more of certain products than others.

40. We note there is very little variation in these gross margins. The average gross margin is [%] and the standard deviation is approximately [%]. We consider that this evidence supports that Poundland does not currently materially vary the product ranges or pack sizes available at different stores.

99p

41. 99p submitted that the range of SKUs for all 99p stores was determined centrally. All types of products were sent to each 99p store, as a result of which all 99p stores stocked the same products. There were only limited circumstances in which the range of SKUs might differ between 99p stores. The sources of any variation were in cases where the following applied:
- (a) There was only a limited number of a certain type of product available. In this case, stock was allocated to stores by reference to each store's turnover. Those 99p stores with the highest turnover received the largest amount of stock. However, this was an exceptional situation and happened very rarely.
  - (b) Variations in SKUs might occur where a certain type of product had sold out at individual stores. In this case, store managers could ask for additional volumes to be supplied to them.
42. Consequently, 99p submitted that three factors were relevant in determining SKUs and volumes for each 99p store:
- (a) sell-through rates, ie the amount of inventory supplied to each store compared to the amount of inventory sold to customers;
  - (b) stock availability; and
  - (c) the stock holding of each store.
43. 99p submitted that it did not have internal documents relating to these requests as they were made via an automated system, where individual stores were required to count stock and update numbers.

44. We considered the local variation in 99p's gross margins as evidence of the extent to which it currently varies the range and pack size of products available at each store (given the minimal variation in pricing).
45. Similar to Poundland, we noted there is very little variation in these gross margins. The average gross margin is [REDACTED]%, and the standard deviation is approximately [REDACTED]%.<sup>10</sup> This evidence therefore supports the view that 99p does not currently materially vary the product ranges or pack sizes available at different stores.

### *Pack sizes*

#### *Poundland*

46. Poundland submitted that pack sizes for a particular brand did not vary on an ongoing basis between different Poundland stores. There might be limited circumstances where a store held a historic stock of a line that was no longer available, for example if a 250ml toothpaste line was replaced by a 200ml line. In these cases, the store in question would temporarily offer the 'old' version of the product until the stock was sold out.

#### *99p*

47. 99p similarly submitted that pack sizes for a particular brand of product did not vary between stores.

### *Refits and refurbishment*

#### *Poundland*

48. Poundland submitted that a large proportion of the Poundland estate was new, with just under 60% of stores having opened over the last five years. New stores were generally established to a high standard. As a result, and due to its low margin discount model, Poundland had [REDACTED].
49. [REDACTED]
50. Poundland has undertaken two refurbishment programmes since 2007:
  - (a) [REDACTED]

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<sup>10</sup> [REDACTED]

(b) [REDACTED]

51. [REDACTED]

52. [REDACTED]

53. Poundland further submitted that the proximity of the nearest 99p store was not a factor influencing the choice of stores to refurbish. To support this Poundland submitted data showing that [REDACTED]% of stores were refurbished regardless of whether or not there was an overlap with a 99p store. However, based on analysis of our database of the Parties' store locations, we found that [REDACTED]% of Poundland's stores were refurbished where there was not a 99p store within one mile and [REDACTED]% where there was.

54. Poundland also provided data showing that the likelihood of a store being refurbished increased with its age: [REDACTED]. [REDACTED]

55. We looked at whether there might be a relationship between the likelihood that a store was refurbished and the number of VGM and SPP retailers within 1 mile of Poundland's store. We noted that the proportion of stores refurbished increased with the number of competitors within 1 mile. [REDACTED]% of stores where Poundland faced zero or one competitors were refurbished while [REDACTED]% of stores where Poundland faced two or more competitors were refurbished. We considered whether this relationship might be explained by the fact that stores with a greater number of competitors were also older or were in high street or town centre locations.

56. To analyse this, we estimated the probability that a store was refurbished based on: (a) the number of competitors; (b) the age; and (c) whether it [REDACTED]. The results showed statistically significant positive coefficients for age and negative for [REDACTED]. The coefficient for the number of competitors was not significant. This supports Poundland's submission that the age of store and whether it [REDACTED] were the main factors determining whether a store was refurbished rather than local competition.

99p

57. 99p submitted that refits and store refurbishments were planned independently from any developments in local competition. Indeed, refits were planned a number of months in advance, and were always subject to authorisation by the 99p board. Refits were 'solely at the discretion of the [99p] directors'. It noted that it would be 'unusual for [99p] to have advance notice of [competitor store] openings' when deciding on a refit programme. Thus, store refits were never scheduled in response to the behaviour of competitors.

## *Staffing*

### *Poundland*

58. Poundland store staff are hired to centrally-determined store structures and salary bandings. As the turnover of any given store grows, the extent of management required to fulfil store duties, such as staff or till management, stock ordering, etc. also grows. [✂]
59. Poundland submitted that it highly restricted local store [✂] autonomy. All decisions in relation to pricing, quality and range were taken at a central, national level and key elements of service, such as staffing levels and recruitment, were also centrally determined and heavily dictated on the basis of national policies. Compliance to central policy was closely monitored, both through regular reporting of performance and store visits. Stores were regularly visited by retail management teams, as well as head office staff and the Poundland board. Any failure to follow central policy was quickly identified and fed back to ensure corrective action was taken.

### *99p*

60. 99p submitted that its approach in relation to staff training was set nationally. Its 'Training Document Summary' for new staff set out the core values of 99p and its approach to recruitment, training and employee support. Every 99p employee would, regardless of job title or store location, receive this training as part of their induction.

## *Opening hours*

### *Poundland*

61. Poundland submitted that it did not operate a uniform policy for opening hours. Poundland stores would trade for as many hours as was profitable, subject to legal or contractual limitations, or landlord restrictions (eg shopping centre opening times). In practice, a store's opening hours would depend on the size of the town or city it was situated in, the footfall, and the opening hours of other retailers and companies around a given store (such as cinemas, coffee shops etc. as a proxy for the likely footfall later in the day).
62. There is a substantial degree of variation in opening hours across Poundland's stores:

- (a) The total weekly opening hours for different stores ranges from [redacted] hours<sup>11</sup> to [redacted] hours.<sup>12</sup> The average total weekly opening hours is [redacted].
- (b) On weekdays and Saturdays, opening hours ranged from 9:30am–5:30pm to 8:00am–10:00pm.
- (c) Only two stores are not open on Sunday. For the others, opening times ranged from 12:00pm–4:00pm to 9:00am–9:00pm.
63. To explore whether Poundland’s opening hours might vary in response to local competition, we asked a number of follow up questions, including the extent to which opening hours were changed over time and whether Poundland had ever changed opening hours in response to the local entry of a competitor.
64. Poundland submitted that it did not keep any records of opening hours changing over time, but that it was not aware of any case where it had changed its opening hours in response to the local entry of a competitor. Poundland submitted that in general, profitability would be driven by the extent of local footfall at a given hour of the day. Poundland would therefore generally take account of the opening hours of nearby stores (whether competitors or not) where these stores were ‘destination stores’ that drove footfall. It would also take account of other factors that drove footfall, such as the presence of nearby schools and offices.
65. By way of example, Poundland submitted that for the last five stores it had opened, two<sup>13</sup> were located in retail parks, and consequently opening hours were dictated by the retail park’s rules. For the remaining three:
- (a) [redacted] (open 8:00am to 7:00pm) – a nearby Sainsbury’s traded early-to-late (8:00am to 9:00pm). Accordingly, there was sufficient footfall to open at 8:00am and close at 7:00pm.
- (b) [redacted] (open 8:00am to 6:00pm) – the area was fairly quiet in the evening, with most nearby retailers including WH Smith, Boots and Superdrug closing between 5:30pm and 6:00pm.
- (c) [redacted] (open 7:30am to 7:00pm) – the store had two schools in close proximity. Poundland decided to open earlier in the morning in order to capture the early morning footfall from the schools. The area had

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<sup>11</sup> [redacted]

<sup>12</sup> [redacted]

<sup>13</sup> [redacted]

relatively high footfall in the evening, with a nearby Morrisons trading until 8:00pm. As a result, Poundland decided to open the store until 7:00pm.

99p

66. 99p submitted that opening hours were set uniformly across the country, with hours varying slightly between three different types of store location. Thus, high street stores were generally open from 8:00am to 6:00pm and retail park stores typically traded from 8:00am to 8:00pm. Opening hours for stores located in shopping centres would vary depending on the opening hours of the shopping centre they are located in.

*Conclusion on the Parties' pre-merger approach to PQRS*

67. Overall, the evidence above shows that the Parties vary some parameters of competition locally, but not others:
- (a) Both have a pricing policy that is largely consistent across stores. Poundland, in particular, sells [nearly all] of its products at the £1 price point, with the exceptions mentioned in the following paragraph.
  - (b) Poundland varies its range locally by size of store. Pack sizes do not vary across stores. [X] the limited variation in gross margin across their stores supports the view that there is limited variation in the range and pack sizes available (given their consistent pricing policies).
  - (c) There does not appear to be material variation in staffing by store, with staffing being determined as a fixed proportion of the level of store turnover.
  - (d) Refits and refurbishments are necessarily targeted at specific stores.
  - (e) There is variation in the opening hours of Poundland's stores.
68. However, the evidence above supports the view that the variation in PQRS has not been related to the local competition faced by the Parties with few exceptions:
- (a) Both Poundland and 99p have carried out a small number of promotional periods where prices have been temporarily discounted. In the case of Poundland, the vast majority of these promotions have been carried out in response to the entry of a competing [X] retailer. However, these promotions did not account for a significant proportion of Poundland's sales in aggregate. These examples indicate that it is possible for the Parties to deviate from a national pricing policy in response to local

competition, but their very limited incidence implies that the benefits of doing so do not outweigh the costs in general. Further, we note that all of these examples relate to occasions where the Parties have lowered their prices below the £1 price point rather than raised their prices. As explained further below, some of the potential costs to the Parties of changing price locally relate to the impact on their brand and reputation. Given the Parties' brands, we consider it likely that these costs are asymmetric – in other words, that brand and reputational damage from raising price would be materially greater than from lowering price.

- (b) The only variation in the range offered by Poundland is determined by the size of store rather than the level of local competition.
- (c) Refits and refurbishments do not appear to be important parameters of competition, with Poundland only [redacted] on refits across its store network over the last three years. Further, there is no evidence that either Poundland or 99p carries out refits or refurbishments in response to local competition.
- (d) It does not appear that competition is an important determinant of opening hours relative to other factors.

### ***The costs of setting PQRS locally***

- 69. Even if the Parties have not varied PQRS locally in the past, we considered whether the merger would create the incentive for them to do so in the future. To make this assessment, we have considered what the costs and benefits of doing so would be.
- 70. It is difficult to quantify with precision what the costs to the Parties of varying parameters of competition locally would be, but we have made a qualitative assessment below. As a starting point, we note that to the extent that the Parties have not varied PQRS locally in the past, this may imply that there are currently costs of doing so. We have further considered the Parties' and other retailers' submissions on what the additional costs of setting PQRS in response to local competition would be.

### ***Poundland's submissions***

- 71. Poundland submitted that the main reasons for operating a consistent national policy across PQRS were the following:
  - (a) Simplicity and consistency were key to remaining competitive in this low margin businesses. As a result, Poundland operated a national

commercial strategy that did not give any material level of discretion to local store managers.

(b) Simplicity in store planning and systems enabled efficient stock and working capital management through a tightly defined product range and provided customers with a consistent store experience.

72. Poundland submitted that it was not possible for it to deviate from this approach without fundamentally changing its current business model. Any such change would introduce significant additional complexity and cost to the business which, in turn, would present significant risk of reputational and brand damage.

### *Pricing*

73. Poundland submitted that the single price point brought transparency to Poundland's offer and engendered trust with customers. Poundland believed that any deviation from this core unique selling proposition would have significant reputational implications for the business and would materially damage the Poundland brand, and, as a consequence, adversely affect sales.

### *Range*

74. Poundland submitted that any [REDACTED]:

(a) [REDACTED]

(b) [REDACTED]

75. Poundland further submitted that as a discounter, it operated with extremely slim profit margins amounting to approximately [REDACTED]% of sales. Accordingly, cost control was a necessity for the business and maintaining low central operating costs was a fundamental part of this. Poundland's current approach to planning enabled it to quickly, effectively and profitably roll-out in excess of 60 new stores each year, as well as manage an estate of 600 stores. Any deviation from this approach would introduce additional complexity into an otherwise simple operational [REDACTED].

76. We asked Poundland what current systems it used to manage range plans and to estimate its investment into these systems to date. [REDACTED]:

(a) [REDACTED]

(b) [REDACTED]

(c) [REDACTED]

77. Poundland has invested a total of [REDACTED] into these systems.
78. In order for Poundland to receive, manage and distribute products to stores, it also uses a number of other systems including a merchandising management system and warehouse management system, along with automated store replenishment and automated warehouse replenishment tools. It is not possible to estimate the cost of these systems on the basis of the available information.
79. We also asked Poundland about its current expenditure on Planning staff. Poundland responded that [REDACTED]. [REDACTED]
80. Poundland also submitted that any move away from the current standardised national approach to store ranging would also fragment sales volumes on individual lines and would adversely impact Poundland's ability to utilise its economies of scale to negotiate better commercial terms with suppliers. With fewer lines, Poundland was able to buy larger volumes on individual lines and, in doing so, achieved more competitive terms with suppliers. Poundland submitted that [REDACTED]. [REDACTED]
81. Poundland submitted its contracts with [REDACTED] as an illustration of the [REDACTED] it had with suppliers. [REDACTED]<sup>14</sup> [REDACTED]
82. Poundland submitted that as it had grown over time, [REDACTED]. [REDACTED]
83. Further, Poundland submitted that some [REDACTED] were offered by suppliers for [REDACTED]. [REDACTED]<sup>15</sup> [REDACTED]
84. Poundland submitted that its current approach to stock purchasing and forecasting would also have to change fundamentally. [REDACTED]
85. In addition, Poundland submitted that ensuring compliance at store level would also become increasingly complex as a result of any deviation from the current policy. The current standardised approach to store planning and merchandising enabled Poundland to ensure compliance across its store estate effectively and efficiently, as stores were assessed against the same national models. Any deviation from this approach would complicate the compliance process, and risks adversely affecting store sales.
86. A move away from Poundland's current national approach to store planning would also affect the customer experience. The uniform nature of store planning meant that Poundland was able to deliver a highly consistent

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<sup>14</sup> [REDACTED]

<sup>15</sup> This equates to approximately [REDACTED].

customer experience across the country, which would be jeopardised by a move towards local ranging.

87. Finally, Poundland submitted that the CMA would also be aware [REDACTED].

#### *Pack sizes*

88. Poundland submitted that if the business was to start varying pack sizes at a local level, this would necessitate the introduction of a significant number of additional SKUs. This presented a number of operational and commercial complexities, in particular across Poundland's buying, logistics and retail functions.
89. The majority of Poundland's sales were from branded products. These sales accounted for approximately [REDACTED] of total sales value. Were Poundland to sell different pack sizes variants of the same product for £1 simultaneously across its estate, it was likely that [REDACTED]. [REDACTED] It emphasised in this respect that the Parties collectively represented only a small fraction of total sales for the majority – if not all – of the branded suppliers they used. It was therefore logical to assume that suppliers would prioritise the integrity of their brand over their relationship with Poundland. Accordingly, stocking multiple pack size variants was likely to present both supply and commercial issues with branded suppliers.
90. We asked suppliers whether they would have concerns about a single price point retailer selling more than one pack size of their products; in other words to sell a larger pack size in some stores than others. None of the six suppliers that replied to this question submitted that they would have concerns. Mars Chocolate UK Limited (Mars) replied that it would be a [REDACTED] for the retailer to adopt in the context of an SPP offering, and that consequently it would [REDACTED]. Procter & Gamble UK replied that 'consumers might approach us if they saw such a price discrepancy but as retail pricing is very clearly at the discretion of the retailer, we would explain that position to anyone who contacted us. As such it would not be a significant issue for us. Logistically this should be possible for us to manage, provided the retailer was meeting our minimum order requirements. We consider Poundland would most likely be able to meet these requirements. They would then need to distribute the different packs to their various stores.'
91. Furthermore, Poundland submitted that own-label products were also likely to present significant issues for the business were it to consider varying pack size by store. The majority of own-label products were imported, with a significant proportion coming from the Far East. Accordingly, freight represented a significant proportion of the product cost for these lines, and

receiving products in full container loads was essential to maximising logistical efficiencies. Were Poundland to split its sales volume across multiple pack size variants, it would potentially have to either receive part containers and not realise the logistics efficiencies or take greater quantities of products and tie-up additional capital in stock (as well as requiring additional warehousing capacity).

92. We asked Poundland whether it currently received any containers with multiple product lines and what the constraints of doing this would be. Poundland responded that [REDACTED]. [REDACTED]
93. Poundland submitted that fragmenting sales volumes across additional lines would adversely impact both:
- (a) [REDACTED]
  - (b) [REDACTED]
94. The introduction of additional SKUs would also create significant logistical complexities. [REDACTED]
95. Poundland submitted further the following:
- (a) Any move towards stocking additional SKUs and distributing different pack sizes at a local level would also require Poundland to operate and manage additional range plans. This would introduce an additional layer of complexity and necessitate additional investment in [REDACTED].
  - (b) In addition, there was also a significant risk of damaging both the Poundland brand and sales. Poundland faced competition across the high street from a range of different competitors, both across the business and on a category-by-category basis. Any dilution of Poundland's product offer could materially affect the competitiveness of Poundland's range compared to that of its competitors and thereby adversely affect sales.
  - (c) Equally, any material dilution in the business's offer could have a significant adverse impact on Poundland's brand reputation, and erode the trust and confidence in the brand that Poundland had built over the past 25 years. Market research commissioned by the business over a number of years had consistently identified value as the key driver for visits to Poundland stores. Any dilution of this value could quickly erode consumer confidence in the brand and materially affect sales.

### *Evidence from other retailers*

96. We gathered evidence from potential competitors to the Parties, in particular asking them the extent to which competitive parameters they set varied across stores, and if not, what they thought the costs of doing so would be. Their responses are set out below.

#### *Poundworld*

97. Poundworld submitted that it set parameters of competition centrally. [REDACTED]<sup>16</sup>
98. [REDACTED]<sup>17</sup>

#### *B&M*

99. B&M submitted that its product range was decided centrally. However it submitted that it traded in a broad spectrum of store sizes, generally ranging from 8,000 ft<sup>2</sup> to 30,000 ft.<sup>2</sup> Its 445 stores are banded into five size bands. Accordingly its branch merchandising function at head office decides the range to be stocked at any one band. This decision is based on the band's size and the volume bulkiness of any given product. It is not based on any local competitor factors. Its quality of service is set centrally across the store estate. This is done through giving all its store managers a uniform store level payroll budget based on the store size.
100. B&M further submitted that it could not adjust the pack sizes across the estate. It would not be able to source competitively if it required its suppliers to supply the same product in a variety of different pack sizes. It would also significantly increase its stock holding with adverse impacts on working capital and warehouse requirements.

#### *Home Bargains (TJ Morris)*

101. TJ Morris submitted that its decisions on price, product range and quality of service were made centrally. [REDACTED]<sup>18</sup>

#### *Poundstretcher*

102. Poundstretcher's stores' operations are determined centrally by its head office. Store and regional managers may provide feedback to head office on

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<sup>16</sup> Summary of hearing with Poundworld on 29 June 2015, paragraphs 20–24.

<sup>17</sup> Summary of hearing with Poundworld on 29 June 2015, paragraph 28

<sup>18</sup> Summary of hearing with TJ Morris on 23 June 2015, paragraphs 19-24.

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 owns, such a centrally-driven policy made strong business sense. Poundstretcher said that it did sometimes vary its pricing policy across different regions.<sup>19</sup>

### *Wilko*

103. Wilko<sup>20</sup> submitted that it undertook some tailoring of its range based on the format of the store and the local environment and customer. It submitted that it had a national pricing policy and its service standards were also set on a national basis, but that there would be some local pricing when it cleared stock, though these were the exceptions rather than the norm. Wilko submitted that the main benefits to a centralised approach to pricing were that the customer had a consistent experience across its estate and online. It also assisted in margin management for the buying team because of centralised control. In terms of range, the main benefit was that it was able to log all store ranging in a systematised way, which meant its ability to run the supply chain and maintain good customer availability was enhanced. It also enabled management of store refits or range changes in a much more efficient way. If it were to deviate from this, there would be additional costs in terms of lost sales through worse availability, and there would be less control of stock and margin.
104. Wilko also said it did not think a huge amount would change if the transaction were to go ahead as the ability of Poundland and 99p to vary their offering was limited, given their SPP propositions.<sup>21</sup>

### *Savers*

105. Savers<sup>22</sup> said that it operated a simple and low cost model, which meant that it largely offered the same product range in all of its stores, regardless of their size. It said that one or two product lines per month would be added as a result of feedback from store managers. Savers said that its prices and promotions were decided at a national level [✂]. [✂]
106. Savers said that tailoring the stock to its stores by location would add complexity and costs that it did not want to have to pass on to customers. To

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<sup>19</sup> [Summary of hearing with Poundstretcher on 19 June 2015](#), paragraph 5.

<sup>20</sup> [Summary of hearing with Wilko on 2 July 2015](#), paragraph 7.

<sup>21</sup> [Summary of hearing with Wilko on 2 July 2015](#), paragraph 31.

<sup>22</sup> [Summary of hearing with Savers on 24 June 2015](#), paragraphs 8 & 9.

offer more localised product ranges would require a larger head office and distribution centre, and probably bigger stores with higher rents.

107. In addition, we considered evidence from suppliers on whether they currently produced bespoke pack sizes for the Parties:
- (a) Mondelez UK Limited (Mondelez) and Nestle submitted that they did not offer bespoke pack sizes to the Parties.
  - (b) Coca-Cola Enterprises Ltd (Coca-Cola) submitted that it did not offer bespoke pack sizes to the Parties. It submitted that '[redacted] Coca-Cola [redacted] Coca-Cola [redacted]'. [redacted]
  - (c) Mars submitted that [redacted]. It submitted that '[redacted]'. Further, it submitted that [redacted] for a retailer.
  - (d) Procter and Gamble UK submitted that 'we have a range of £1 products that we ship to Poundland but these are not based around the retailer, [redacted] and is also often a requirement in this channel. These are available to ship to all retailers who wish to take them, [redacted]. [redacted] consolidate the potential volume return of all the customers to understand whether the total volume demand is enough to make the product viable to produce'.
  - (e) Unilever UK Limited (Unilever) submitted that 'alongside our broad range of products (in larger sizes) we produce a number of products in smaller pack sizes at the request of retailers and/or to be competitive in the relevant market. These are not bespoke pack sizes specifically for Poundland/99p ... The products listed above are available to all retailers. We also produce other solutions for customers who want those, eg large pack sizes and extra free packs. The threshold value before a new product can be considered viable is £250,000 of Unilever turnover'.
  - (f) PMS International Group Plc (PMS) submitted that it 'purchases a lot of product specifically aimed at the single price retailers so its buyers do a lot of the manipulation of the product size weight, price count and specification to create suitable products'.
  - (g) [redacted] submitted that 'my products are designed to maximise value for the pound retail price. This is usually done by looking at other suppliers in the market who supply similar products to other retailers that are sold for a higher price than one pound. I try and match size [and] quality but with a much lower price. I ordered manufacturing equipment specifically so that I could manufacture products for the single price market for the best possible value. I do this only for the single price retail market. If I were to sell to other markets it would mean higher prices due to lower volumes.' It

submitted that the minimum volume requirement to provide bespoke pack sizes to a retailer was ‘normally above 20,000 items per month, minimum full trucks to minimise transport cost per item’.

- (h) [X] submitted that ‘we have not created bespoke products for 99p or Poundland specifically but we do offer a four-pack for [X] which was developed with discount retailers in mind. We offer similar products in single serve, sharing and a wide range of multi-pack formats. The above packs are available to all retailers’.

#### *Assessment of costs of setting parameters locally*

108. As a starting point, we note that to the extent that the Parties have not varied PQRS locally in the past, this may imply that there are currently costs of doing so. Overall, the evidence from the Parties and third parties supports that there are costs to varying parameters of competition locally but that this varies by parameter of competition:

- (a) **Price** – we note Poundland’s submission that there may be material reputational impact if it was to raise its price, particularly given its brand. Most of the VGM and SPP retailers [X] operate national pricing policies. No third party submitted that they believed that Poundland might raise its prices following the merger.
- (b) **Range** – in relation to range, the evidence to support Poundland’s submissions that there would be material costs from systems capability and increased headcount appears somewhat weak. In particular, we note that Poundland already varies its range according to size of store, and that the incremental cost of introducing a small number of additional store categories may not be substantial. Further, we note that most third party VGM and SPP competitors also flex range according to size of store and that [X] and Wilko currently vary range to some extent according to the local environment and customer demand.

We note from Poundland’s submissions that there may be some less quantifiable costs directly arising from introducing greater complexity, for example in relation to forecasting and compliance. However, again in the context of Poundland’s current model, which already varies its range according to size of store, there does not appear to be large incremental costs from introducing a small number of additional store categories.

We note from Poundland’s submissions [X]. It appears that some of these costs would be mitigated to the extent that customers would switch to other products in Poundland’s range, were it to withdraw certain lower-

margin products from certain stores. It is not possible for us to assess exactly how substantial these costs would be, though we note that: [REDACTED].

- (c) **Pack size** – in relation to pack size, based on responses from suppliers, it does not appear that supplier concerns about brand integrity would be an issue that would restrict Poundland’s ability to sell multiple pack sizes of the same product.

With respect to the costs from fragmenting sales volume with suppliers due to lower discounts relating to volume, it is not clear why buying multiple pack sizes from the same supplier would materially reduce Poundland’s negotiating strength with that supplier. [REDACTED] and [REDACTED].

[REDACTED]<sup>23</sup>

We note Poundland’s submission that additional SKUs would cause increased logistical costs due to their [REDACTED] requirements. However, it is not clear to us how material these costs would be particularly given Poundland’s enlarged scale following the merger.

### ***The benefits of changing policy post-merger***

109. We consider that the benefits of a setting a local PQRS would arise from the retailer’s ability to set PQRS in response to local demand and competition. The benefits of setting a local PQRS are therefore greater if there is a greater degree of variation in local demand and in local competition. The merger may increase the benefits of setting PQRS locally rather than nationally if it increases the degree of variation in competition faced by Poundland or local demand across local areas. We therefore consider below the likely effect of the merger on the variation in local market structure faced by Poundland.
110. In addition, we consider how the benefit of altering different parameters locally may vary.

### ***The benefits of varying different parameters***

111. A retailer may wish to set higher prices where it faces less competition, and lower prices where it faces more competition. The mechanism whereby Poundland might benefit from altering other parameters of competition locally and consequently its incentive to do so varies.

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<sup>23</sup> In 2014, Poundland sold [REDACTED]% own label products.

112. There may be an incentive to reduce the **pack size** of products in areas where Poundland faces less competition relative to those areas where it faces greater competition. To the extent that Poundland is able to lower the wholesale price of products by reducing pack sizes in areas where it faces less competition, it would increase its margins in these areas. We have noted above that its ability to lower its wholesale price in this way is constrained by the availability of smaller pack sizes and the willingness of suppliers to provide them. A limited availability of pack sizes may have the implication that the incremental change may need to be fairly substantial in some cases (for example, a move from a 5x multipack of chocolate to a 4x). This appears likely to be a lesser constraint in the case of own-branded products.<sup>24</sup>
113. There may be an incentive to reduce the **range** of products available in areas where Poundland faces less competition. In particular, there may be the incentive to withdraw low margin products from these areas to the extent that customers would then switch to higher margin alternatives within that product class. For example, Poundland might benefit from withdrawing a particular brand of shampoo to the extent that its customers were to switch to other higher-margin brands of shampoo (rather than searching for the same brand of shampoo in an alternative retailer). The magnitude of the incentive to vary range locally will therefore depend on:
- (a) the extent to which margins of substitutable products vary; and
  - (b) the extent to which customers are prepared to substitute between brands (inter-brand substitution), rather than between retailers for the same brand (intra-brand substitution).
114. On the first point, we have considered evidence on the variation in gross margins across a sample of Poundland's products, namely the [X] within each product category (eg health and beauty, batteries). Where a product class was less than 10% of a product category's total sales, we added an additional class until a quota of 10% of sales was met. The product classes chosen (17 in total) in total therefore are at least 10% of Poundland's total sales.<sup>25</sup>
115. There appears to be a high degree of variation in the gross margin within product category as illustrated in the table below. This analysis doesn't account for differences in pack size. We note, however, that it includes some product classes where products appear likely to be highly substitutable,

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<sup>24</sup> In 2014, Poundland sold [X]% own label products.

<sup>25</sup> These are the same products that we are considering for the benchmarking exercise.



- (a) The merger will change the market structure in areas where Poundland and 99p overlap (in these areas both the Poundland store and the 99p store will face a reduction in the number of competitors they face). This may increase the overall variation in the degree of competition faced by Poundland across its network of stores, in particular if its overlaps with 99p are in areas where it faces little other competition.
- (b) As a result of the merger, in absolute terms Poundland may now operate in a greater number of areas with relatively few competitors ('less-competitive' areas), but also in a greater number of areas with a relatively large number of competitors ('more-competitive' areas). This means that it would face greater absolute variation in the local demand it faces. Relative to the size of its overall network of stores, the addition of 99p's network has the potential in principle to either increase or reduce the degree of variation Poundland faces. This will depend on whether there is greater variation in the competition and local demand faced by 99p relative to Poundland and also on the extent to which Poundland and 99p overlap.

121. The extent to which the relative or absolute level of variation in competition is important depends on the extent to which Poundland's costs of varying parameters of competition locally increase with the number of stores. If the costs of varying parameters of competition locally are proportional to the number of stores, then only the variation relative to the store network is important. At the other extreme, if costs are fixed then it is the absolute level of variation that is important.

122. From our analysis above, it appears that the relevant costs may be additional systems costs, costs from increasing planning headcount and a possible reduction in discounts relating to volume from the fragmentation of sales volume. Most but not all of these costs would increase with a greater number of stores:

- (a) We consider that systems costs are largely fixed in nature, and would likely be decreasing in proportion to the number of stores Poundland operated.
- (b) We asked Poundland to what extent planning costs would be fixed or increasing with the number of stores. [✂]

This evidence shows that planning costs increase as store numbers increase, although less than proportionally. We do not have reason to believe that the incremental planning costs required to vary parameters of competition locally would not follow a similar pattern.

(c) [✂]

123. Based on this, we consider both the relative and absolute increase in variation in market structure post-merger.
124. To capture the impact of the merger on the variation in competition we have focused on the change in the number of stores where Poundland faces limited competition from the competitors identified in our assessment of closeness of competition, and the proportion of Poundland's total estate that these stores comprise.
125. In line with our assessment of pre-merger competition we have focused on the following competitors faced by Poundland: 99p; Poundworld; B&M; Home Bargains; Wilko; Bargain Buys; Tesco; and Asda. In line with our assessment, we have weighted:
- (a) 99p (including the Family Bargains and 99p Plus fascia) and Poundworld by 1;
  - (b) B&M, Home Bargains, Wilko, Bargain Buys, Tesco and Asda by 0.5; and
  - (c) where these competitors are located between 0.5 miles and 1 mile, by 0.5.
126. Table 3 below shows the effect of the merger on the number of Poundland stores that face 'limited competition'.

**Table 3: Poundland number of weighted competitors pre- and post-merger**

<i>Number of competitors</i>	<i>0</i>	<i>0 to 0.25</i>	<i>0 to 0.5</i>	<i>0 to 0.75</i>	<i>0 to 1</i>	<i>0 to 2</i>	<i>Total stores</i>
Number of stores pre-merger	44 (8%)	65 (11%)	133 (23%)	150 (26%)	215 (37%)	385 (67%)	575
Number of stores post-merger	71 (9%)	116 (14%)	241 (29%)	292 (35%)	409 (50%)	629 (76%)	824*

Source: CMA analysis.

\* One 99p store, for which we have no sales data since week 26 of FY14, is excluded from this analysis, as it is temporarily closed.

127. We tested the sensitivity of these results to changing the competitor set. In particular, as one sensitivity we added Poundstretcher to the competitor set and as another dropped Asda from the competitor set. There was not a significant impact on the results.
128. In order to better understand the results, we considered what factors might be driving them and what the sensitivity to these factors may be. We note that the following factors would drive the change in the variation in market structure faced by Poundland:

- (a) The extent of the geographic overlap between Poundland and 99p. The greater the overlap, the greater the scope for the merger to result in additional areas with ‘limited competition’ due to the removal of competition between Poundland and 99p.
- (b) The extent to which there are other competitors in the overlap areas that would mitigate the effect of the merger in these areas such that they would remain competitive following the merger.
- (c) The number and proportion of areas where 99p faces ‘limited competition’ compared to Poundland pre-merger. If 99p had a greater proportion of less competitive areas than Poundland, then the merger would cause Poundland to face a higher proportion of areas with ‘limited competition’.

***The net incentive to change policy post-merger***

- 129. We note that to the extent that the Parties have not varied PQRS locally in the past, this may imply that there are currently costs of doing so. We therefore consider whether any reduction in competition from the merger would increase benefits sufficiently such that benefits are now greater than costs.
- 130. Table 4 summarises qualitatively at a high level how the potential benefits and costs of varying parameters in response to local competition differ by parameter of competition.

**Table 4: Benefits and costs of varying parameters in response to local competition**

	<i>Benefits</i>	<i>Poundland’s submissions on costs</i>
Price	<p>Increase profits by setting higher prices where less competition (and therefore fewer lost sales) or greater demand and lower prices where more competition or less demand.</p> <p>Benefits depend on the extent to which the Parties face variation in competition and demand.</p>	<p>Reputational impact for the business and undermines the Poundland brand, adversely affecting sales</p>
Range	<p>Increase profits by withdrawing lower margin products in areas where they face less competition (and vice versa) such that customers switch to higher margin products and tailoring range available to local demographic preferences.</p> <p>Benefits depend on:</p> <ul style="list-style-type: none"> <li>• the extent to which the Parties face variation in competition and demand;</li> <li>• the extent to which there is variation in margins across products for each product type; and</li> <li>• the extent to which customers are willing to switch across brands (rather than switch between retailers)</li> </ul>	<p>Additional systems and headcount cost from introducing additional store categories for range plans.</p> <p>Greater complexity in forecasting demand.</p> <p>Fragmentation of sales volume reduce bargaining power and [§].</p>
Pack size	<p>Increase profits from greater margin by introducing smaller pack sizes for products in areas where they face less competition and larger pack sizes in areas where they face greater competition.</p>	<p>Possible supplier concerns about the impact on brand integrity in the market.</p> <p>Fragmentation of sales volume reduce bargaining power and volume discounts/[§].</p> <p>Possible impact on brand and reputation, adversely affecting sales.</p> <p>Increase in warehousing space requirements as new ‘pick faces’ required.</p>

Refits and refurbishment	Selectively target refurbishments at areas where greater competition faced (omit refurbishments from areas where less competition faced)	None – Parties already carry out refits in specific stores
Opening hours	Greater opening hours where more competition	None – Poundland already varies opening hours in response to local conditions
Staffing	Greater level of staffing where more competition	None – Poundland already varies staffing (in a fixed proportion to store turnover)

Source CMA analysis

131. The net incentive of varying these parameters post-merger will depend to a large degree on the extent to which the merger increases the variation in demand and market structure faced by Poundland:
- (a) For price, both the benefits and the costs of variation in response to local competitive conditions appear high. In particular, we note that Poundland raising its price in particular local areas would be a material shift in its business model and may negatively affect its brand.
  - (b) For refits, opening hours and staffing, there is no evidence that the Parties vary these in response to local competition despite there currently being no apparent material costs to doing so. This implies that the incentives to vary these in response to local competition must also be limited regardless of the degree of variation in market structure.
  - (c) It is not clear how material the costs of locally varying pack sizes are, particularly in relation to unbranded products, but also branded products. We note submissions from some third parties that it would be commercially feasible to do this, particularly given Poundland’s enlarged scale.
  - (d) For range, the costs similarly do not appear great. However, the benefits may be somewhat limited as the incentive to vary range is constrained to the extent that customers switch between buying substitutable products with different margins at the Parties’ stores.
132. We put to Poundland that we were considering whether it may have the incentive post-merger to introduce a small number of store categories to the existing [redacted] categories [redacted]. These additional store categories could identify stores (of a certain size) where Poundland faces less competition. For example, type A stores could be split into type ‘A1’ (more competition) and type ‘A2’ (less competition). We wished to test whether the range in stores facing less competition might then be reduced – in particular, whether there would be an incentive to withdraw lower margin products within a given product class.
133. Poundland submitted that it had never considered the type of approach suggested in this question before, and that it would not make commercial

sense for it to consider this approach for the first time post-merger. It further submitted the following:

- (a) Poundland had long faced a wide range of concentration levels across its estate with respect to VGM competitors (see further below on its full competitor set). There was no basis to consider that the transaction constitutes a ‘tipping point’ with respect to the number of areas in which there are fewer VGM competitors and therefore lead Poundland to consider this fundamental change in its business model:
- (i) Poundland currently faced no VGM competition within one mile in [REDACTED]. It currently did nothing differently in these areas relative to the approximately [REDACTED] of local areas where it does face competition within one mile, as it has explained to the CMA. The merger would [REDACTED] more areas in this category – ie an increase in local areas facing no VGM competition from [REDACTED], ie by [REDACTED]. It seemed difficult to imagine that such a marginal change in competitive conditions would ‘tip’ Poundland into making such a fundamental change in its policies.
  - (ii) Another possible way of thinking about the change was to consider those areas that the CMA may consider to be ‘undercompeted’ on a VGM-only market definition. In almost [REDACTED] local areas Poundland currently faces [REDACTED] VGM competitors (again, in these areas it behaves exactly the same and earns the same margins as in all other areas, as it has explained to the CMA). This equates to approximately [REDACTED] of its estate. The merger would create only [REDACTED] more such areas – an increase of approximately [REDACTED]. So one would have to consider 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. This is again implausible.
  - (iii) The lack of any ‘tipping point’ set out above was even starker when the Parties’ competitive set is widened. For example, considering only VGMs and ‘big four’ supermarkets, the transaction would not create any additional areas where Poundland would be the only retailer present.
- (b) Third, this would be a particularly implausible moment for Poundland to execute such a shift in strategy. Such a strategy may in theory have made more sense when the business faced competition from VGM competitors (and, indeed, other competitors, as we note below) in a smaller number of areas. By contrast, with even VGM competitors alone having announced expansion plans totalling hundreds of new stores (between 235 and 245

in the next year alone) – which one might expect to be situated in areas with fewer VGMs more often than not – it would be peculiar if Poundland chose this moment to make structural changes of the sort proposed by this question. 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.

- (c) The competitive conditions in a given locality are not based simply on counting the number of competing national VGM fascia present within a local areas. An independent retailer next door to Poundland may constrain it to a greater extent than a [redacted] several hundred metres away, but would not be caught by a simple fascia count of national VGM competitors. The same is true for a discounter such as Aldi or Lidl, or a large ‘big four’ supermarket. 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 [redacted] 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. But such an exhaustive analysis would add enormously to the complexity of Poundland’s offering and is implausible for a business that needs to maintain simplicity in order to be profitable.
- (d) 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. That would again add enormous complexity. First, it would require the implementation of systematic and proactive monitoring (as Poundland has explained to the CMA, its current [redacted]). Second, it would require that the systems to implement the new ranging process be sufficiently sophisticated that they can deal with regular, real-time reallocation of a store from one group to another. It is difficult to consider that this would not quickly become unwieldy for this reason alone. At a more general level, it is hard to see how Poundland would consider that an area is more or less ‘competitive’ given that its margins do not vary across its estate.
- (e) The proposal would require a philosophical shift in the key performance indicators at store level – from revenue generation to margin generation. At present, as Poundland has explained, [redacted]. This proposal, by contrast,

would be [redacted]. [redacted] Once again, it is difficult to understand why the transaction would lead Poundland to undertake such a significant philosophical shift in how it assesses and monitors performance at the local level.

- (f) The proposal 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. This proposal would run contrary to that. The policy would be directly visible to consumers, to suppliers and to the media. It is difficult to understand why the transaction would lead Poundland to take this risk with its most valuable asset – its brand – for the first time.
- (g) The proposal would also negatively impact Poundland on the supply side.  
[redacted]

#### *Our assessment of Poundland's submissions*

- 134. We note Poundland's submission that this would be a particularly implausible time for it to make such a big shift in its strategy given its own further expansion plans and those of its competitors. We note further that there is no evidence that Poundland has considered varying pack size or range locally in the past.
- 135. We note Poundland's submission that competition does not solely relate to the number of VGM competitors in a vicinity. We note that the way in which we have measured local competition above is determined by our competitive assessment. Similarly, we note Poundland's submission that from its perspective the definition of 'more' and 'less' competitive areas is nuanced and may not be a one-time exercise but would need to be updated.
- 136. We note Poundland's submissions on the possible impact on the [redacted] and on its brand. These are addressed above in paragraph 108(b).

## Glossary

<b>99p</b>	99p Stores Limited.
<b>Accent</b>	Accent Marketing & Research Limited.
<b>Act</b>	Enterprise Act 2002.
<b>Aldi</b>	ALDI Stores Limited.
<b>Asda</b>	Asda Stores Limited.
<b>Big Four</b>	The four largest supermarket chains in the <b>UK: Tesco, Sainsbury's, Asda and Morrisons.</b>
<b>Big supermarket</b>	In the context of the <b>CMA econometric analysis</b> , includes the following <b>fascias: Sainsbury's, Morrisons, Tesco Extra, Tesco Metro, Tesco Superstore, and Asda.</b>
<b>B&amp;M</b>	B&M European Retail Value S.A.
<b>Branded products</b>	Products that are made by a manufacturer and have the manufacturer's brand, or a brand licensed by the manufacturer, on them.
<b>CMA</b>	Competition and Markets Authority.
<b>CMA econometric analysis</b>	Analysis carried out by the <b>CMA</b> of the effect of the opening and closing of retail outlets on the revenues of the Parties' stores.
<b>CMA range review</b>	Comparison carried out by the <b>CMA</b> of the ranges and prices for a selection of products of <b>Poundland</b> with the ranges and prices of products offered by some other retailers.
<b>CMA survey</b>	A face-to-face survey of 5,459 customers of <b>Poundland</b> and <b>99p</b> carried out by <b>Accent</b> on behalf of the <b>CMA</b> during <b>phase 2.</b>
<b>EDLP</b>	Every day low price.
<b>Exit survey</b>	Research carried out face-to-face with customers as they leave a shop, to gain their immediate feedback.
<b>Fascia</b>	Store brand name.

<b>FMCG</b>	Fast moving consumer good(s).
<b>General Merchandise</b>	Any non-food or non- <b>grocery</b> products, including categories such as electrical, baby & toddler, pet, entertainment, homewares, stationery, DIY, clothing, seasonal/events, gardening, and celebration and toys.
<b>Grocery</b>	Includes categories such as food and drink, household consumables, and health & beauty products.
<b>Home Bargains</b>	<b>VGM retailer</b> operated by <b>TJ Morris</b> .
<b>Inquiry group</b>	A group of <b>CMA</b> panel members constituted to decide the questions set out in section 35 of the <b>Act</b> in respect of the <b>Transaction</b> .
<b>Iceland</b>	Iceland Foods Limited.
<b>Issues statement</b>	<b>CMA's</b> statement of issues, 25 June 2015.
<b>LADs</b>	Limited assortment discounters that operate on a national level, namely <b>Aldi</b> , <b>Lidl</b> and <b>Iceland</b> .
<b>Large SPP retailer</b>	One of the three large <b>SPP retailers</b> : <b>Poundworld</b> , <b>Poundland</b> and <b>99p</b> .
<b>Lidl</b>	Lidl UK GmbH.
<b>Local event</b>	Opening of a store (entry event) or closing of a store (exit event).
<b>Local supermarket</b>	In the context of the <b>CMA econometric analysis</b> , includes the following <b>fascias</b> : <b>Sainsbury's</b> Local, <b>Morrisons</b> M Local, <b>Tesco</b> Express
<b>Max 99p</b>	MAX 99p Limited.
<b>Merger Assessment Guidelines</b>	Merger Assessment Guidelines (CC2 (Revised), OFT1254, September 2010).
<b>MPP</b>	Multi-price point. A business model in which goods are not all offered at the same price.
<b>Morrisons</b>	Wm Morrison Supermarkets plc.
<b>PCA</b>	Performance concentration analysis.

<b>Phase 1</b>	The investigation of the <b>Transaction</b> to determine whether the statutory test for reference was met (in the case of anticipated mergers, section 33 of the <b>Act</b> ).
<b>Phase 2</b>	The investigation of the <b>Transaction</b> following the reference made on 17 April 2015 to decide the questions set out in section 36 of the <b>Act</b> .
<b>Poundland</b>	Poundland Group plc.
<b>Poundland's econometric analysis</b>	<b>PCA</b> carried out by <b>Poundland</b> for the purpose of its submissions to the <b>CMA</b> in <b>phase 1</b> .
<b>Poundland's research</b>	Research carried out by <b>Poundland</b> in the normal course of business. This does not include <b>Poundland's survey</b> .
<b>Poundland's response to the issues statement</b>	<b>Poundland's</b> response to <b>phase 2 issues statement</b> , 9 July 2015.
<b>Poundland's submission</b>	<b>Poundland's</b> initial submission to the <b>phase 2</b> inquiry, 29 May 2015.
<b>Poundland's survey</b>	The online survey carried out by <b>Poundland</b> in late 2014 for the purpose of its submissions to the <b>CMA</b> in <b>phase 1</b> .
<b>Poundstretcher</b>	Poundstretcher Limited.
<b>Poundworld</b>	Poundworld Retail Limited. Operates an <b>SPP</b> business model under the Poundworld brand and an <b>MPP</b> business model under the Family Bargains brand.
<b>Poundworld's survey</b>	An <b>exit survey</b> of customers carried out for <b>Poundworld</b> in 2014.
<b>PQRS</b>	Price, quality, range and service: the parameters of a retail offering.
<b>Sainsbury's</b>	J Sainsbury plc/Sainsbury's Supermarkets Limited.
<b>Sam 99p</b>	Sam 99p Limited.
<b>Savers</b>	Savers Health and Beauty Limited, a subsidiary of A. S. Watson (Health and Beauty UK) Limited.

<b>SKU</b>	Stock-keeping unit. This is a code, usually alphanumeric, that uniquely identifies a product. It is typically used by businesses for inventory management purposes.
<b>SLC</b>	Substantial lessening of competition. The competition test in one of the questions to be decided in <b>phase 2</b> under section 36 of the <b>Act</b> .
<b>Small SPP retailer</b>	<b>SPP retailer</b> with fewer stores than <b>Poundland</b> , <b>Poundworld</b> or <b>99p</b> .
<b>SPP retailer</b>	Any retailer that has adopted an <b>SPP</b> business model.
<b>SPP</b>	Single Price Point: refers to a retail business model, in which nearly all goods are sold at the same price, typically at £1 or a slightly lower amount, eg 99 pence.
<b>Specialist value retailer</b>	Value retailers focusing on a small number of product categories, such as Savers, which specialises in home and health and beauty products.
<b>Three-year plan</b>	The plan that was agreed by the board of <b>99p</b> in April 2014.
<b>TJ Morris</b>	T.J Morris Limited
<b>Transaction</b>	The proposed acquisition by <b>Poundland</b> of <b>99p</b> .
<b>Tesco</b>	Tesco Stores Limited.
<b>UK</b>	United Kingdom.
<b>Value retailer</b>	Also referred to as discount retailer or discounter. A retailer that sells products at lower prices than the same or equivalent products sold in what customers regard as traditional high street outlets. This category includes: <b>SPP retailers</b> , <b>VGM retailers</b> and <b>LADs</b> .
<b>VGM retailer</b>	Value <b>General Merchandise</b> retailer. Where used in our analysis, this means any of the following retailers: <b>B&amp;M</b> , <b>Home Bargains</b> , <b>Poundstretcher</b> , <b>Wilko</b> , <b>Poundworld's Bargain Buys fascia</b> and <b>99p's Family Bargains fascia</b> .
<b>Wilko</b>	Wilkinson Hardware Stores Limited.