

# Tesco/Booker

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# Tesco

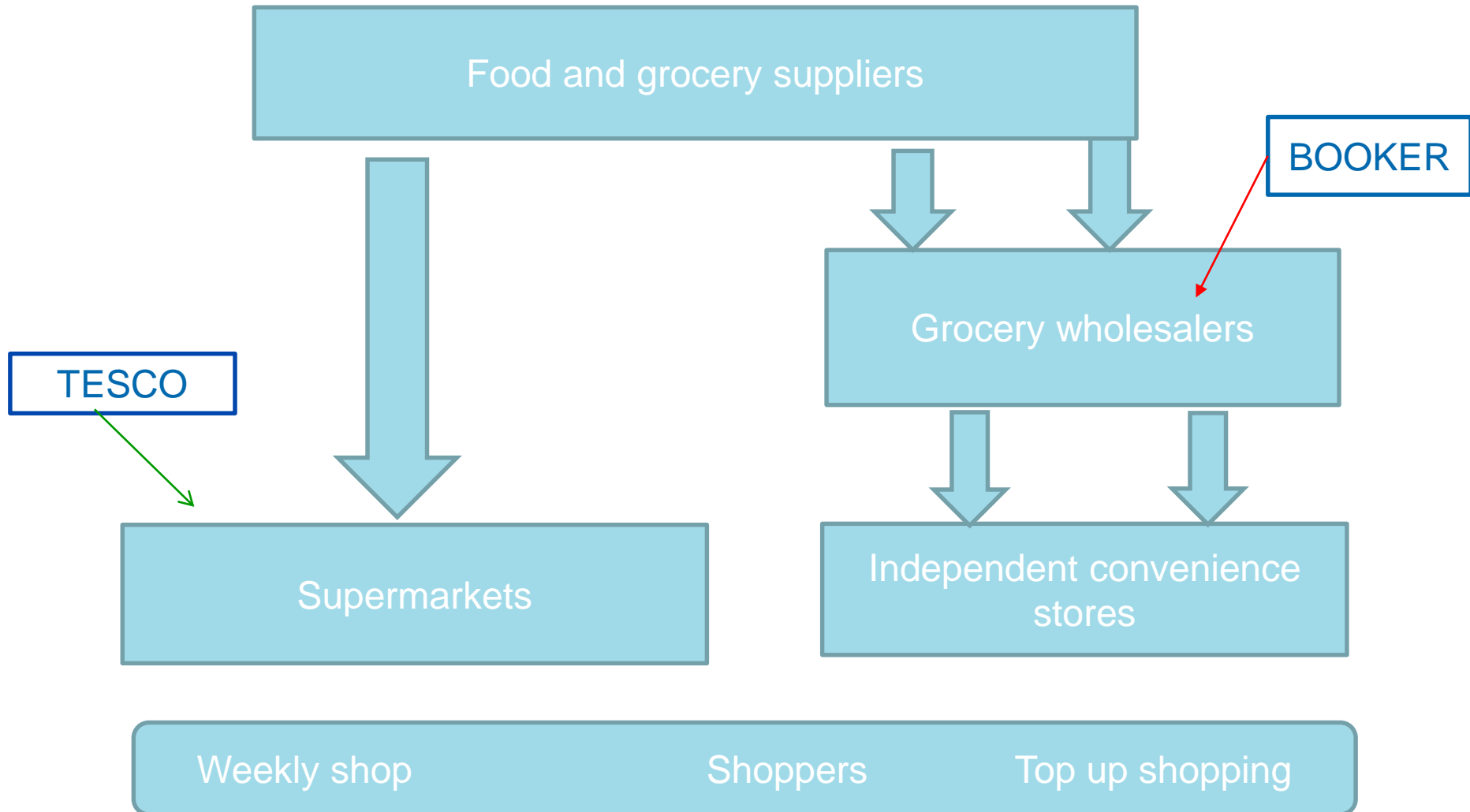
- Largest UK grocery retailer
- £42.5bn turnover in UK
- 28% market share for grocery retailing; 16% share of “convenience market”
- 3,500 stores



# Booker

- **Largest UK grocery wholesaler**
- **£5bn turnover; about 200 wholesale depots**
- **~ 20% share of UK grocery wholesaling**
- **Customers:**
  - independent retailers (convenience) ~ 65% turnover
  - Catering sector (restaurants etc) ~ 35% of turnover
- **Owns symbol groups Londis, Premier, Budgens and Family Shopper**
  - Signage/ access to special promotions
  - Minimum purchasing requirements (but not exclusive purchasing)

# Vertical merger



# Vertical TOH 1

## Wholesale to retail

Rival wholesalers



Price rise

*Option 1:*  
Switch wholesaler



*Option 2:* Raise retail prices



Rival  
convenience  
stores



# Ability & Incentives

- **Tesco and Booker supplied stores overlap in 1000's of local areas**
  - Incentive will vary for each local market
- **Need a systematic approach to filtering areas of concerns...**
- **vGUPPI- Salop & Moresi (and Frontier Economics)**
  - Like the GUPPI, but in vertical context
  - Assumes pre-merger profit maximisation and focusses on change in incentives
  - **Many** more inputs than horizontal GUPPI

- **Proportion of sales lost through**

- Wholesale switching
- Retail switching



*Depends on relative  
wholesale/ retail margins and  
pass through*

- **Pass through by retailers**

- **Diversion Ratios Booker-supplied stores to Tesco**

- **Our approach**

- Assessment of retail and wholesale competition, financial analysis of margins, etc.
- Critical input: **Wholesale switching**

## *Can symbol stores switch; will they?*

- Analysis of regional wholesale/ symbol group market shares
- Survey evidence from Booker symbol stores:
  - Multi-sourcing common (75% of symbol stores)
  - Frequently monitor other wholesalers offering
  - Move volumes frequently across wholesalers
  - High awareness of other symbol groups
  - Only 6% of symbol stores consider minimum purchasing requirements as barrier to switching
  - High willingness to switch in response to price rise
  - Minimum purchasing requirements not enforced
- Overall, Booker convenience customers highly price sensitive and many alternatives- **LIMITED ABILITY TO FORECLOSE**

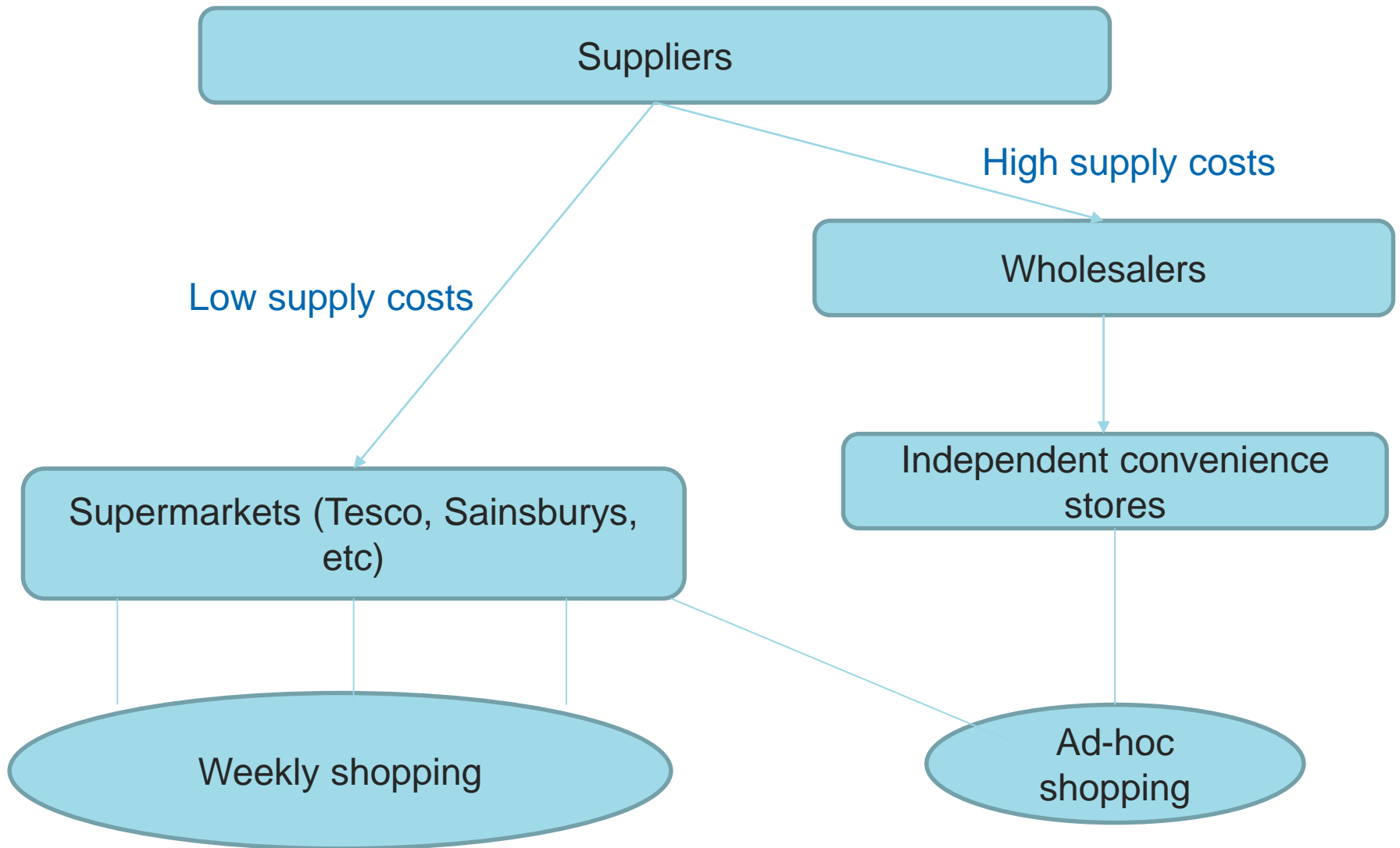


# Incentives Analysis

- **Ran vGUPPI for 12,000 stores**
  - vGUPPI > 5%: 10 out of 12,000 overlapping stores
  - vGUPPI > 10%: 0
- **Incentive not large/ costs of strategy**
- **Conclusion: No competition concerns**

# Buyer power theory of harm

- **Booker and Tesco purchase of groceries from suppliers**
  - Increment in purchasing share from merger small (< 5%); brings Tesco back to where it was 5 years ago
- **Main concern: Booker will benefit from Tesco's existing buyer power**



# Efficiency offence

- **TOH relies on Booker getting lower input prices, and passing on to independents**
- **Short term impact:**
  - Independent retailers who buy from Booker get lower prices
  - Convenience shoppers get lower prices
- **Anti-competitive in the longer term?**
  - If wholesale competition weakened/ exit/ Booker gets dominant
- **Conclusion: Booker ~ 20% market share- harm unlikely**

# Conclusion

- **A major shift in industry dynamics/ new business model**
- **Wholesale market and convenience market generally competitive**
- **Other wholesalers also building alliances with supermarkets (eg, COOP/ NISA)**
- **Short to MT: could mean lower prices to independents and consumers/ LT harm very uncertain**
- **Protect competition, not competitors**