

## **Summary of a hearing with Palmer & Harvey McLane Limited held on Friday, 22nd September 2006**

1. Palmer & Harvey McLane Limited (P&H) was a national delivered wholesaler with a national network. It delivered goods anywhere in the country, regardless of the size of the customer, on a national pricing structure. Its business consisted of two distinct parts: distribution and wholesaling. In terms of turnover, about 70 per cent of its business was in distribution, the rest wholesaling. Customers for distribution services ranged from Tesco and Sainsbury's to Esso, Shell, and Total. There were also about 780 independent retailers trading under one of P&H's fascias.
2. Products from its suppliers were first delivered to its distribution centres. From this common stock base, products were distributed to retail customers ranging from the largest stores of the biggest multiples to the smallest stores of the smallest independents, including petrol filling stations. P&H supplied tobacco, confectionery, crisps and snacks, soft drinks, alcohol, chilled and frozen, household and grocery products. It is also increasingly supplied products with a very short shelf life, such as chilled sandwiches, pies, and pasties. It did not supply greetings cards, newspapers, magazines, audio, and other such non-food items.
3. Tobacco represented about 75 per cent of its turnover by value, with 80 per cent of that being duty. While the key grocery multiples had their own distribution services, they still used P&H as a niche distribution provider. P&H took title to the goods it supplied and was experienced in handling small deliveries across its whole customer base.
4. Over the last five years there had been a decline in the independent customer base. In response, P&H had expanded its distribution business, developed its Mace symbol brand and added additional ranges with shorter shelf-life, including chilled and fresh goods. It aimed to be a one-stop supplier to both sell more into its current customers and to expand its customer base. There was a substantial infrastructure cost attached to its business, so it was necessary to maintain a high volume throughput to maximize efficiency.
5. The number of consumers was not reducing but they might be changing the locations they were buying from which opened up distribution opportunities to wholesalers like P&H. P&H believed that there was going to be market consolidation among wholesalers and this should drive efficiency.
6. Its margin structure was different for distribution and wholesaling which reflects the difference in the services offered. Although the rate of gross margin was greater on wholesaling than distributing, P&H offered more services as a wholesaler and the delivery economics were different for its distribution business. P&H had to manage all its business as efficiently as possible.
7. The shared operational infrastructure contributed to a more cost-effective service for all P&H's business with a consequent benefit to both wholesale and distribution customers.
8. The multiples distribution infrastructures were primarily designed for delivering large volumes of grocery products, not relatively small delivery quantities of impulse products. There were key grocery multiples that did their own tobacco distribution, such as ASDA, so P&H must still provide a highly competitive service as a distributor as well as a wholesaler. P&H was unable to comment on any ultimate difference

between prices to wholesale and distribution customers because its customers might negotiate variations to pricing direct with manufacturers to which P&H was not a party.

9. Its pricing structures reflected the level of service provided and the delivery economics. Drop size was a key consideration, the bigger the drop size, the less the delivery cost was per case.
10. Where it saw deep discounting in the market place it did not know whether these prices were below the net buying price. P&H told us that it was not concerned with such discounting activity. It also had no evidence of any targeted discounting by supermarkets aimed at smaller stores or particular categories of product.
11. It did not have the information to take a view on whether the planning regime favoured major retailers. From a convenience market perspective, P&H told us that there were opportunities for independent retailers to acquire sites, as was reflected in the petrol forecourt market where there had been an increase in multi-site operators.