

WOOLWORTHS GROUP PLC  
COMPLETED ACQUISITION OF BERTRAM GROUP LIMITED  
THROUGH ENTERTAINMENT UK LIMITED

**The Parties' Comments on the Competition Commission's Survey Analysis**

The parties' comments below are referenced to the numbered paragraphs of the Competition Commission's (CC) survey analysis. Generally, the parties note that, despite some of the deficiencies described below<sup>1</sup>, the results of the survey broadly correspond to those of the Bertram surveys summarised in the parties' Statement of Case. In particular, the CC's survey demonstrates that:

- The implied share of supply by primary distributors and publishers is 68% among survey respondents;
- Most independent retailers obtain books from multiple sources, even those purchasing as few as three or four books a week; and
- THE is a much weaker competitor than Bertram, Gardners and publishers/primary distributors for "reserve supply".

**Ref para 4:** The parties believe that a number of the conclusions drawn in the CC's analysis of the survey are unreliable due to the under representation of Gardners' customers.

**Ref para 5:** The parties note that there is a wide overlap between the range in size of retailers who "multi-source" from a wholesaler and other secondary sources, and the range in size of those that single source from a wholesaler.

**Ref para 6:** The CC analysis indicates that, from the £8m expenditure by multi-sourcing respondents who use Bertram or THE as their primary supplier, about £2m of this is by retailers who use the other merging party as their secondary source. However, the parties note that from the £4.7m expenditure by multi-sourcing respondents who use Bertram as their primary supplier, only about £650,000 of this is by retailers who use THE as their secondary source. This amount is significantly less than both the amount sourced from Gardners (£1.8m) and publishers/primary distributors (£1.7m). This finding is consistent with the fact that THE's narrower range results in it being less attractive as a "reserve" supplier. Further, direct supply accounted for 34% of the £11.6m spent by multi-sourcing respondents using a wholesaler as their primary supplier. In other words, primary distributors are a viable source of supply for "reserve" titles and so a wholesaler that is a second supplier would be vulnerable to losing orders to direct supply.

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<sup>1</sup> A number of other concerns regarding the extent to which respondents to the CC's survey are representative of the UK book retailing sector are examined at Annex 1 to the parties' Additional Submission, dated 26 June 2007.

**Ref para 7:** In the parties' view, the question regarding primary diversion preferences (i.e. if a primary supplier was unable to deliver a title) is unreliable due to the under representation of Gardners' customers in the survey. Furthermore, the CC acknowledges that the analysis cannot be regarded as reliable.

**Ref para 9:** Given the survey's stated objective of determining the extent to which books are purchased from different suppliers, the parties are disappointed by the lack of discussion regarding the share of direct supply, which the parties calculate to be 68% based on the expenditure figures provided by respondents.

**Ref paras 11 and 12:** The parties have alerted the CC to a number of potential issues with the sample groups selected regarding the accuracy of the initial sample categorisation, as follows:

- First, as the bands consider only wholesale expenditure rather than total expenditure (including direct supply), they cannot be considered to be an accurate proxy for retailer size;
- Secondly, in the data the parties have received, there are a number of occasions where the total mean average spend for a given expenditure category exceeds the limit for that category. For example, independents that were categorized as spending less than £1,000 in total have a mean expenditure exceeding that amount with Bertram alone; and
- Finally, it appears that the survey sample is heavily biased in favour of retailers who sell a very small number of books. A retailer who purchases £1,000 of books will sell around 190 books a year<sup>2</sup>, i.e. fewer than four books a week. Clearly, such retailers are not specialist books stores and book sales make up only a very small proportion of their total sales. Such retailers account for less than 2% of Bertram's turnover with independents.

The parties recognise that the survey results are presented in terms of total expenditure rather than the original sample groups to account for some of these issues.

**Ref para 20:** The problem reported by the parties to the CC related to Gardners' account numbers being used, in some cases, as the password/identifier for the survey, potentially undermining the respondents' perception of the confidentiality of the survey. It is the parties' view that this is possibly one of the reasons why Gardners is under represented in the survey.

**Ref para 25:** The parties believe that the under representation of Gardners noted by the CC may somewhat bias the answers to some of the questions (for example, tables 7 and 8).

**Ref paras 24, 25 and 26:** The parties are disappointed that no evidence on the overall share of supply accounted for by direct supply has been presented – especially given that one of the main objectives of the survey was to understand the extent to which

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<sup>2</sup> Assuming an average discount of 40% and an average RRP of £9.

titles are purchased from different suppliers. Using data supplied by the CC, the parties have been able to estimate that the survey respondents source 68% of their requirements from direct supply, suggesting that this is by far the single largest source used by the retailers surveyed.

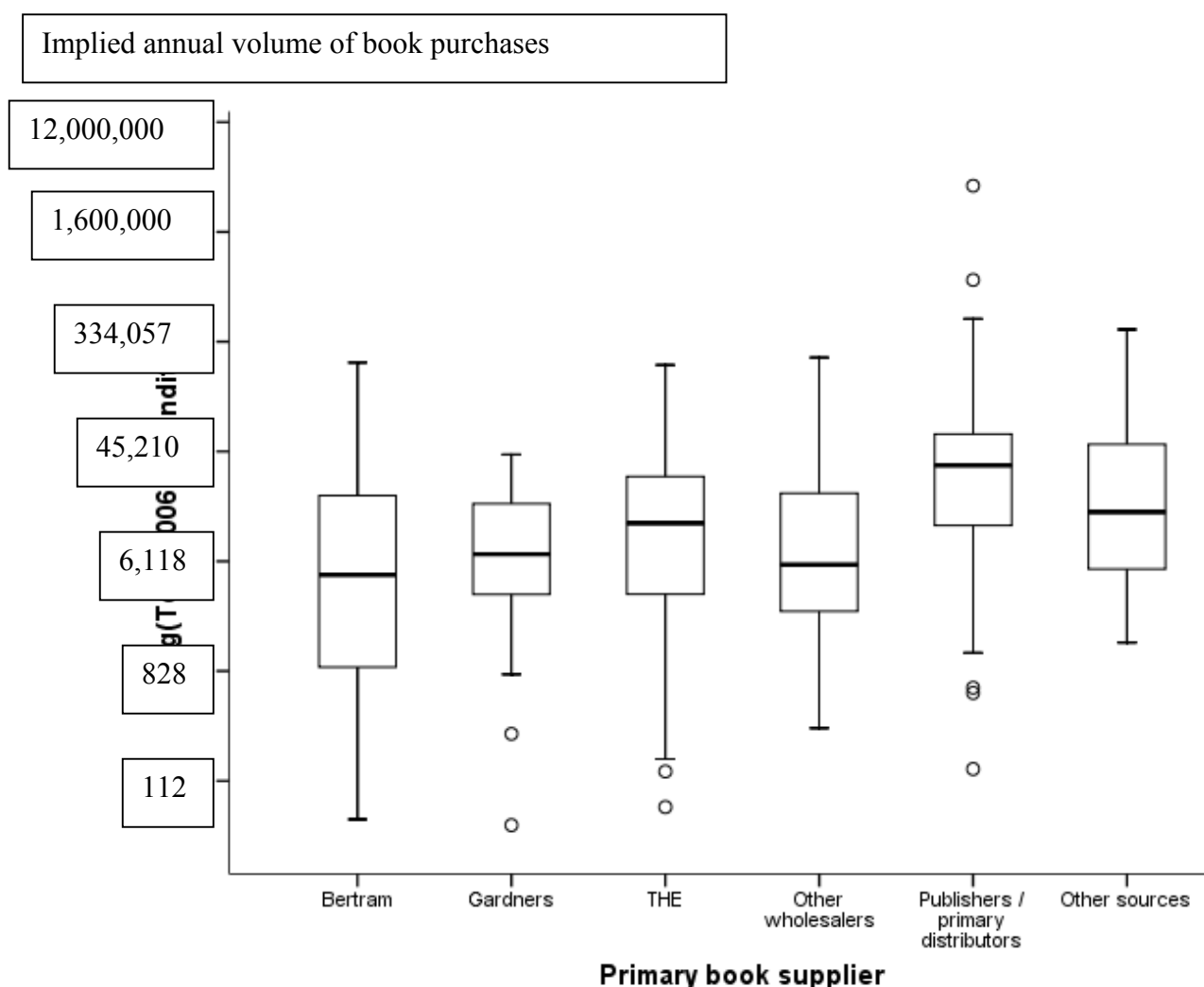
Source of Supply	Percentage of supply
Bertram	10%
Gardners	6%
THE	6%
Other Wholesaler	6%
Primary distributor	68%
Other	5%

**Ref para 27 and Figure 1:** Whilst the parties acknowledge that data on the size of the different responding retailers has been summarised in terms of natural logarithms for ease of presentation in Figure 1 (Logarithm of total 2006 expenditure by primary supplier - box plot), the parties are concerned that this masks: the large range in size among the survey respondents; the very small size of some of the respondents; and the degree of overlap between the different groupings. In order to illustrate this, Figure 1(a) below re-presents the data, replacing the labels of the natural log of 2006 total expenditure with the implied annual volume of book sales per retailer<sup>3</sup>.

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<sup>3</sup> Assuming an average discount level of 40% and RRP of £9.

**FIGURE 1(a)**  
**Logarithm of total 2006 expenditure by primary supplier - box plot**



**Ref para 29:** The parties believe that the lower range in the size of retailers using Gardners reflects the under representation of Gardners’ customers in the responses received. Furthermore, the conclusion that retailers who source their books from THE and direct from publishers tend to be large is disputed by the parties for the following reasons:

- It is not the case that retailers who use THE or direct supply as their largest book supplier are particularly large. The median number of sales made by a customer who has THE as its largest book supplier is approximately 6,700 per year and for a customer who has direct supply as a primary supplier is 23,000 per year; and
- There is a high degree of overlap between the size of retailers using all of the categories of supply as a primary source, indicating the viability of direct supply for retailers whose purchase requirements are well below the mean.

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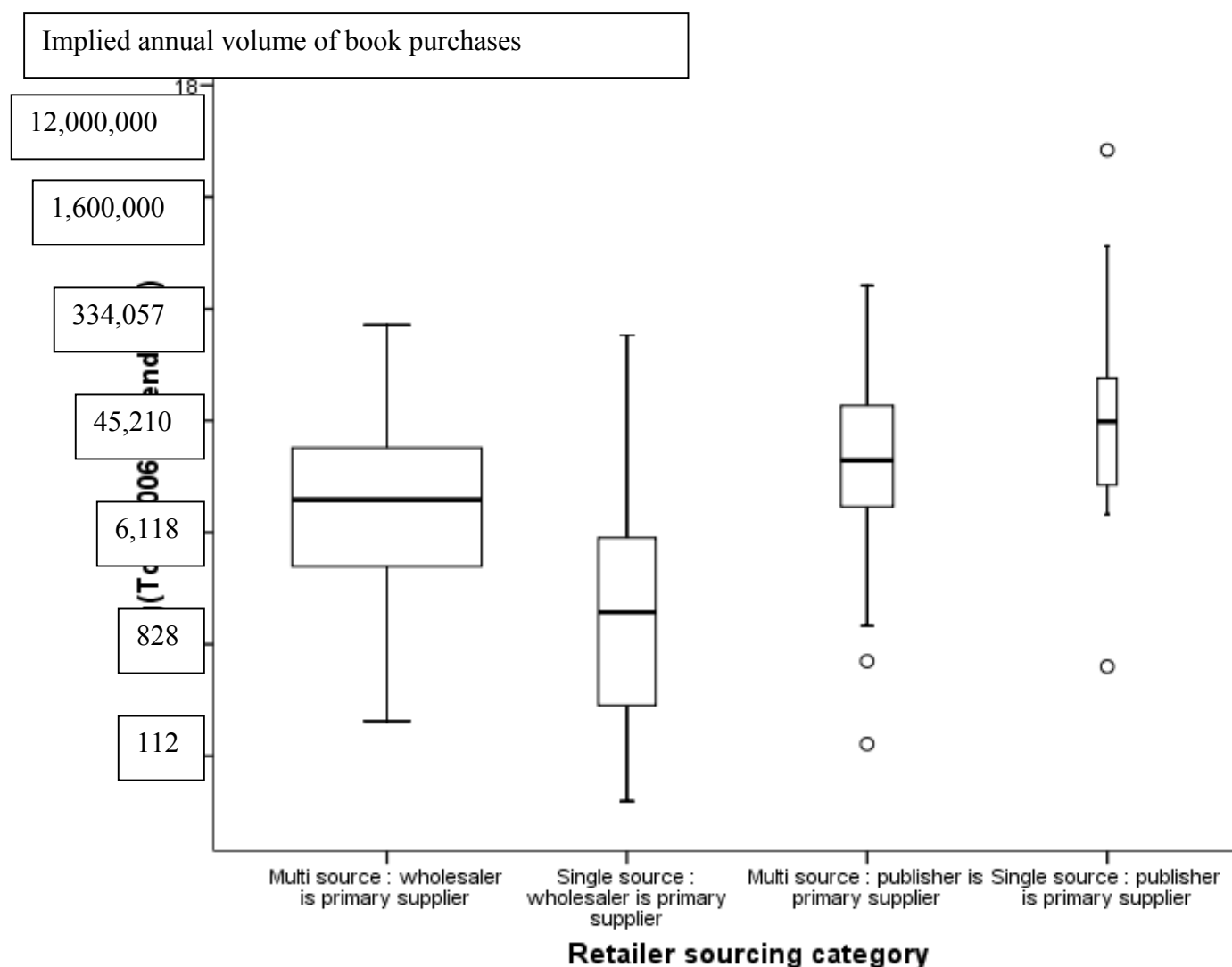
**Ref para 32:** In relation to the analysis of the number of titles retailers hold in stock, the parties would point out that the largest target sample group was for retailers that spend less than £1,000, equivalent to less than 4 books per week. Such retailers would be expected to have a very small range in store and are therefore not representative of independents that specialise in selling primarily books.

**Ref para 40 and Figure 3:** In relation to the analysis of the proportion of expenditure with primary suppliers, the parties note that, due to publishers/primary distributors being treated as a single source of supply, a proportion of the retailers that appear in the 0.9 – 1 ‘block’ of Figure 3 (Proportion of 2006 expenditure with primary supplier – histogram) would in fact deal with a number of suppliers. In other words, the CC survey understates the degree of multi-sourcing.

**Ref para 43 and Figure 4:** In relation to the analysis of expenditure between multi-sourcing and single-sourcing retailers summarised in Figure 4 (Logarithm of total 2006 expenditure by multi-sourcing - scaled box plot), the parties acknowledge that the data has been summarised in terms of natural logarithms for ease of presentation. The parties are concerned, however, that this masks: the large range in size among the survey respondents; the very small size of some of the respondents; and the degree of overlap between the different groupings. In order to illustrate this, Figure 4(a) below re-presents the data, replacing the natural log of 2006 total expenditure with the implied annual volume of book sales per retailer.

The parties also note that there is a large overlap in the range in size of retailers who “multi-source” from a wholesaler and other secondary sources, as well as the range in size of those that single source from a wholesaler.

**FIGURE 4(a)**  
**Logarithm of total 2006 expenditure by multi-sourcing - scaled box plot**



**Ref para 45:** The parties believe that the CC’s conclusions ignore the following findings:

- There is wide overlap between the “Multi source: wholesaler is primary supplier” and “Multi source: publisher is primary supplier” categories; and
- Many of the small retailers are not book specialists, have very low levels of book sales and will tend to stock only a small number of titles.

**Ref para 46 and Table 7:** In relation to Table 7 (Primary and secondary suppliers - all multi-sourcing retailers with a wholesaler primary supplier), the parties believe it is unreliable to consider Bertram/THE together. Further, as noted above, the parties consider that the results are biased due to the under representation of Gardners’

customers in the survey. Table 7(a) re-presents the data with Bertram and THE listed separately.

**Table 7(a)**  
**Primary and secondary suppliers – all multi-sourcing retailers**  
**with a wholesaler primary supplier**

		Primary book supplier				Total
		Bertram	Gardners	THE	Other wholesalers	
Secondary book supplier	Bertram	-	£465,200	£1,495,100	£1,011,700	£2,972,000
	Gardners	£1,847,500	-	£372,400	£140,000	£2,359,800
	THE	£655,600	£259,200	-	£170,000	£1,084,800
	Other wholesalers	£325,900	£274,000	£153,600	-	£753,500
	Publishers / primary distributors	£1,715,100	£385,100	£896,000	£953,100	£3,949,300
	Other sources	£190,500	£44,800	£201,000	£21,200	£457,400
	Total	£4,734,600	£1,428,200	£3,118,000	£2,296,000	£11,576,800

**Ref para 47 and Table 7:** Table 7 shows that direct supply accounted for 34% of the £11.6m spent by multi-sourcing respondents using a wholesaler as their primary supplier. Further, of the £7.85m spent on books by the multi-sourcing group of respondents who have Bertram or THE as their primary supplier, £2.15m is by retailers who use the other merging party as a secondary supplier (27%). This is less than the amount placed with primary distributors (in addition, the share for Gardners is likely to be under represented). From the £4.7m spent by multi-sourcing respondents who use Bertram as a primary supplier, only about £650,000 of this is by retailers who use THE as their secondary source, significantly less than both the amount from Gardners (£1.8m) and publishers/primary distributors (£1.7m). This finding is consistent with the evidence presented in the parties' Statement of Case from the Bertram survey. THE is a much weaker competitor as regards "reserve supply".

Furthermore, the parties believe that this table underestimates the importance of Gardners as a competitor, as Gardners' customers are under represented. The factors that cause this under representation are likely to affect responses both from independents using Gardners as their main supplier and also those using Gardners as their secondary supplier. In other words, independents using THE or Bertram as a main supplier would be expected to source a higher share of spend with Gardners than the CC survey indicates.

**Ref paras 49 to 55 and Table 8:** In relation to Table 8 (Primary diversion option by main supplier - survey responses), the parties note that of the 37 respondents that used Bertram as a primary supplier and would switch either to Gardners, THE or direct supply, 7 (18%) would use direct supply compared to 3 (8%) that would use THE.

This is consistent with the parties' view that THE is a weak competitive constraint in terms of range availability and stock. Furthermore, the parties do not regard the diversion figures to Gardners as being reliable due to the low representation of Gardners' customers in the survey.

In relation to Table 9 (Primary diversion option by main supplier - consolidated switcher categories), the parties do not consider it appropriate to exclude the responses "another source", "wait for main supplier" or "cancel the order" from the analysis. Moreover, the parties do not agree that it makes sense to remove the "main diagonal" square from the Publisher column (i.e. where a respondent stated that it purchased the largest proportion of its requirements from direct supply, but then said it would source a customer order title which was unavailable from its main supplier from the publisher direct). For such a retailer, it is possible that its single largest supplier is a wholesaler, even if it sources a relatively small proportion of its total requirements from the wholesaler in question (even though a higher share of spend is placed with direct supply as a whole). It is thus possible that the question may have been interpreted as referring to a retailer's wholesaler being out of stock of a particular title and as asking where it would attempt to source the title.

Given the complexities of the question, the acknowledgement from the CC that "this analysis of diversion preferences cannot be regarded as very reliable" (as well as the additional problems created by the under representation of Gardners), the parties believe very little weight can be given to any conclusions derived from this analysis.

**Ref paras 56 to 65 and Figure 5:** In relation to Figure 5, it is also possible to calculate a measure of "net importance"<sup>4</sup> and then rank the 12 attributes in importance, as shown in Figure 5(a) below.

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<sup>4</sup> Defined as the number of responses stating "very important" minus responses stating "unimportant".

Figure 5(a)

Rank <sup>5</sup>	Stock availability	Convenience of ordering process	Credit terms	Discount	Efficiency of dealing with small number of suppliers	Marketing support
Regular stock orders	1	5	7	3	8	12
Customer title orders	1	4	8	6	7	12

Rank	Provision of advice on stock	Quality of supply representatives	Range stocked	Speed of delivery	Book returns handling	Willingness to process small orders
Regular stock orders	10	11	6	2	9	3
Customer title orders	10	11	5	2	9	3

The parties note that:

- Stock availability is considered to be the most important aspect for both types of order; and
- The efficiency of dealing with a small number of suppliers is not ranked highly (i.e. 8th for regular stock orders and 7th for customer title orders).

**Ref para 62:** Furthermore, the parties note that speed of delivery is still clearly of great importance for those retailers using publishers as their primary source of supply, consistent with the view that for these independents a 2-3 day delivery time is "quick enough".

**Ref para 66:** The parties note, in relation to the majority of respondents (63%) that pay a surcharge, that the question asked about a surcharge paid from "any" book supplier. In this regard it is misleading to present this as a general finding; the answer would be "yes" if only one of many had a surcharge.

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<sup>5</sup> For regular stock orders discount and willingness to process are ranked equally.