

ANALYSIS

Building a food powerhouse

The combined Tesco and Booker business needs to make an instant impact on the grocery market. **Luke Tugby** highlights five strategies it may be considering

Tesco's £3.7bn swoop for wholesale titan Booker overcame its final hurdle last week when shareholders of both businesses approved the deal.

Although the mega-merger was not due to officially complete until Monday, the food giants had already started working together more closely, as the introduction of a Chef Central shop-in-shop at Tesco's Bar Hill store in Cambridge demonstrates.

Tesco and Booker have previously laid out plans to deliver synergies of at least £200m per annum by the end of their third year as a combined business, but what sort of splash could the grocery powerhouse make in the shorter term?

Retail Week looks at five things it could do to make an almost immediate impact.

Rolling out Chef Central

As Tesco grapples with the issue of excess space in its larger stores, some industry observers have speculated that the grocer could introduce cash-and-carry into its supermarkets to plug such gaps.

Sure enough, even before the merger has officially completed, Britain's biggest retailer has begun experimenting with bringing Booker's Chef Central brand under its roof.

The business serves catering professionals, specialising in "essential food, alcohol and cleaning products" for foodservice companies.

But the first of the 'shop-in-shop' units at Bar Hill – spotted by Grocery Insight director Steve Dresser – also sells goods in bulk to members of the general public who are in search of value. There is a £30 minimum spend.

Dresser believes there is scope for Tesco to rapidly roll out the format to more locations.

He tells Retail Week: "This is something they could do almost immediately to use excess space.

"There is a good spread of products, but the range is quite curated so it's not going to impact the main store.

"Once word spreads among traders, I think people will buy into the format because there are no barriers – there is no membership required and you don't need to be a business to shop there. There is none of that cash-and-carry resistance to put off a normal shopper.

"So it's great for using space and it could potentially drive footfall."

Harnessing buying power to lower prices

Tesco-Booker's enhanced buying power across key categories such as fresh, meat and ambient was one of the core attractions in striking the deal.

The enlarged business would be in a position to place bigger orders and therefore buy in stock at lower prices.

When Iceland acquired Booker back in 2001, its scale was emphasised by the fact the newly renamed Big Food Group was the largest seller of Coca-Cola in Europe.

Tesco-Booker would hold similar sway with its biggest suppliers, meaning it could afford to negotiate more keenly on price and pass those savings on to customers at the shelf edge – should it wish to do so.

Tesco is in the midst of a drive to increase group margins to between 3.5% and 4%, so it could, theoretically, use any buying synergies solely to boost its bottom line.



Charles Wilson and Dave Lewis

But the supermarket giant also wants to close the price differential with discount duo Aldi and Lidl in order to remove price as a factor for consumers when they are selecting where to shop.

At least a portion of the savings that the combined Tesco-Booker makes through its buying abilities, therefore, is likely to be invested into price.

And it is a strategy they are likely to pursue immediately – in the same manner Amazon did following its takeover of Whole Foods – in order to try and convince shoppers that the merger can have longer-term money-saving benefits for them.

Licensing restaurant brands

Although the timelines associated with product development mean this wouldn't happen instantly, there is potential for Tesco to leverage some of the popular restaurant brands Booker supplies in the short to medium term.

The wholesaler counts eateries such as Byron, Prezzo and Wagamama among an impressive client base, which Tesco could tap into for partnerships.

Exclusive deals with any of that trio would represent an appealing proposition for grocery

£1.1bn

Booker's digital sales
last year, to 570,000
customers

Follow all the latest news
on grocery's biggest merger
Retail-Week.com/Tesco



Booker counts Byron
as one of its clients



Capturing customers who are using both Tesco and Booker, then starting to actively target those shoppers – that will be crucial

Steve Dresser, Grocery Insight

shoppers – think recipe kits or ready meals for Wagamama's popular ramen or katsu curry dishes, fresh pizzas or pasta dishes from Prezzo or speciality Byron burgers that could demand a more premium price point.

Tesco already stocks brands such as Pizza Express and Nando's, but many of its grocery rivals have similar deals in place to carry such products on their shelves.

The ability to leverage the Booker merger to strike exclusive restaurant partnerships and develop innovative new food products solely

for Tesco will surely have crossed the minds of Dave Lewis and Charles Wilson.

Enhancing online capabilities

Tesco is already the biggest online grocer in the UK. Now it is joining forces with a business that racked up £1.1bn in digital sales last year to some 570,000 customers.

Booker has grown its ecommerce division at a rapid pace. In 2008, it registered £100m in online revenues; its customer base was 12,000.

Combining the warehouses and logistics of both businesses could allow them to enhance their digital operations further.

For instance, having larger vans going out on the road could save on mileage, cut down delivery times and open up the option of having one driver servicing customers of both Tesco and Booker during the same trip.

A larger number of points of presence – think of the portfolios of Booker Wholesale, Makro, Premier, Londis and Budgens – could also give Tesco the option of peppering the UK with hundreds of click-and-collect points, increasing the convenience for its online shoppers.

Driving loyalty and sharing data

In a world of promiscuous and time-pressed grocery consumers, driving customer

loyalty has never been more difficult. But the combination of Tesco and Booker could allow the bigger business to obtain more data on its shoppers, provide them with more relevant offers and rewards and therefore build a more loyal customer base.

Tesco's Clubcard is already one of the most successful loyalty programmes in retail, while Booker has its own membership scheme for traders.

Tesco's big four rival Sainsbury's has made knowing its customers "better than anyone else" a central pillar of its plan – and acquired Nectar for £60m last month to help it achieve that aim.

But, as part of its Booker purchase, Tesco is also acquiring data on thousands more customers and caterers that it can use to its advantage.

Dresser suggests: "There will be an element of shoppers using both Tesco and Booker. I would expect Clubcard or a loyalty scheme of some sort that stretches across both to come into play at some point.

"Getting people's details, capturing customers who are using both Tesco and Booker, then starting to actively target those shoppers – that will be crucial." **RW**