Terms of reference and conduct of the inquiry

Terms of reference

1. On 5 March 2012, the OFT sent the following reference to the CC:

    1. Whereas in exercise of its duty under section 22(1) of the Enterprise Act 2002 (the Act) to make a reference to the Competition Commission (the Commission) in relation to a completed merger the Office of Fair Trading (the OFT) believes that it is or may be the case that—

        (a) a relevant merger situation has been created in that:

        (i) enterprises carried on by or under the control of VPS Holdings Limited, which is controlled by TDR Capital, have ceased to be distinct from enterprises carried on by or under the control of SitexOrbis Holdings Limited; and

        (ii) as a result, the conditions specified in section 23(4) of the Act will prevail, or will prevail to a greater extent, with respect to the supply of vacant property security services; and

        (b) the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within any market or markets in the United Kingdom for goods or services, including the supply of vacant property security services.

    2. Now, therefore, the OFT, in exercise of its duty under section 22 of the Act and its power under section 35(6) of the Act, hereby refers to the Commission, for investigation and report within a period ending on **19 August 2012**, the following questions in accordance with section 35 of the Act—

        (a) whether a relevant merger situation has been created; and

        (b) if so, whether the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within any market or markets in the United Kingdom.

    (signed) ALI NIKPAY
    Senior Director
    Office of Fair Trading
    5 March 2012

Conduct of the inquiry

2. On 19 March 2012, we posted an administrative timetable for our inquiry.

3. On 26 March 2012, members of the Inquiry Group, accompanied by staff, visited VPS and SitexOrbis's Nottingham operations and toured a number of commercial and social housing sites.

4. We invited a wide range of interested parties to comment on the merger. These included suppliers and customers of the main parties, competitors and potential

competitors for the supply of security services for vacant properties. We sent detailed questionnaires to competitors, intermediaries, customers and potential entrants. Evidence was also obtained through further written requests.

5. We also held 17 hearings with selected third parties, including competitors, new entrants, potential entrants, suppliers, framework providers, social housing customers and commercial customers.

6. A non-confidential submission from a third party and summaries of these hearings can be found on our website. We also received written evidence from the main parties, and a non-confidential version of their main submission is on our website.

7. We commissioned JDS Research Ltd to carry out a survey of the main parties' customers and potential customers. The results of the survey were published on the CC website.

8. On 4 April 2012, we published an issues statement on our website, setting out the areas of concern on which the inquiry would focus. In response to the issues statement, non-confidential versions of the main parties' response and a response from LHC were placed on our website.

9. In the course of our inquiry, we sent to the main parties some working papers and an annotated issues statement for comment. VPS/TDR responded to the annotated issues statement with an economic paper and a response submission. We also held hearings with the main parties on 16 May 2012.

10. On 25 June 2012, a non-confidential version of the Provisional Findings Report, along with the accompanying Appendices and Glossary, were placed on the CC website.

11. On 25 June 2012, we published a Notice of Possible Remedies under Rule 11 of the CC's Rules of Procedure setting out the actions which the CC considered it might take for the purpose of remedying the substantial lessening of competition (SLC) and any resulting adverse effects identified in the Provisional Findings.

12. Following the publication of the Provisional Findings, we held a number of third party response hearings.

13. On 17 July and 23 July 2012, we held response hearings on the Provisional Findings and the Notice of Possible Remedies with SitexOrbis and TDR / VPS respectively. A non-confidential version of TDR / VPS's response to our Provisional Findings was placed on the CC website.

14. A non-confidential version of the final report was published on 17 August 2012.

15. We would like to thank all those who have assisted in our inquiry.

Interim measures

16. On 9 March 2012, we adopted the initial undertakings accepted by the OFT from VPS on 14 November 2011. These interim undertakings are on our website.

17. On 20 March 2012, we directed VPS to appoint a monitoring trustee in order to prevent any pre-emptive action by VPS which might prejudice the outcome of the reference or impede the CC from taking remedial action if it were to reach an SLC decision.

18. On 28 March 2012, we accepted an amendment varying the undertakings to include Northern Ireland within the undertakings. The amendment is posted on our website.

19. On 26 April 2012, we accepted a derogation request to the undertakings, which allowed the integration of The Netherlands' SitexOrbis IT systems with those of VPS and the use of SitexOrbis UK IT staff to assist VPS with this integration.

20. On 24 May 2012, we accepted a derogation request to the undertakings which allowed the transfer of SitexOrbis's business in the Republic of Ireland to VPS.

21. During the course of the inquiry we granted a number of other derogation requests relating to administrative and operational procedures.

Transaction

1. This appendix sets out:

   (a) the transaction;

   (b) details of the sales process and bids received;

   (c) the rationale for the sale of the SitexOrbis business;

   (d) valuation placed on the SitexOrbis business; and

   (e) synergies expected from the acquisition.

The transaction

2. On 27 September 2011 VPS acquired the business of SitexOrbis for a total consideration of £[✂] million:

   (a) VPS is the holding company for the VPS group of companies, which manage services for vacant properties in the UK, the USA, France, Italy and Germany. UK turnover for VPS was £[✂] million and worldwide turnover was £[✂] million in the year ended 31 March 2011.

   (b) VPS's UK arm was also known as Safe Estates prior to rebranding in March 2011. Since March 2010, VPS has been [✂] per cent owned by TDR Capital Nominees Limited as nominees for investors in TDR Fund II[1] which is ultimately managed by TDR. TDR is a private equity fund manager with approximately €[✂] of commitments under management.

   (c) SitexOrbis was the holding company for a group of companies providing integrated property and people security services in the UK and other European countries (France, the Netherlands, Germany, Belgium and the Republic of Ireland). UK and Republic of Ireland turnover was £30.7 million and worldwide turnover £49.6 million in year ended 31 March 2011. We explain SitexOrbis's history and ownership prior to the acquisition in paragraphs 9 to 17.

3. SitexOrbis was marketed by E&Y as one business; however, the acquisition was structured as two separate sale and purchase agreements with the Continental European subsidiaries acquired separately from the UK businesses (ie SitexOrbis's UK, Guernsey and Republic of Ireland businesses).[2] The consideration for the UK businesses was about £[✂] million.

4. The transaction was structured in this way as E&Y (who were appointed to run the sales process) made it clear to TDR that other bids were not conditional on competition clearance and that a bid with such conditions was unacceptable. Subsequent to this, TDR's bids were unconditional on competition clearance and structured as two bids to allow the integration of SitexOrbis's non-UK businesses, whilst TDR sought the approval of the UK competition authorities.

[1] This fund was raised in 2006 (see initial submission, paragraph 2.6).
[2] Following a request for a derogation under the undertakings, the Republic of Ireland business was transferred to VPS.

5. Prior to the acquisition, SitexOrbis was owned and financed by two banks and two hedge funds. The owners of SitexOrbis were originally debt holders who had acquired the business in a pre-pack administration (an insolvency process in which a restructuring plan is agreed in advance and assets are sold immediately the company enters administration) in January 2008. Following this, the new owners put in place a three-year plan in January 2008 with the aim of exiting their investment by January 2011.

Sale process

6. This section sets out the sales process and timetable of events. Table 1 shows a timeline of events.

TABLE 1 **Timeline of events**

December 2009	TDR approach shareholders of SitexOrbis to discuss acquisition
March 2010	TDR indicate formal interest in acquiring SitexOrbis for £[✂]m and based on an assumed run-rate EBITDA of £[✂]m
March 2010	Owners formally appoint E&Y as advisers to run SitexOrbis sales process and begin an auction for the business
July/August 2010	Four private equity bids received—[✂], [✂],[✂] and [✂]. One trade buyer also bid for the business.
	TDR revises initial offer down to £[✂]m
November 2010	TDR provided an updated offer of £[✂]m based on reforecast 2011 forecast EBITDA of £[✂]m and TDR's view on trading performance
December 2010	Bidder 1 makes preliminary offer of £[✂]m
February 2011	E&Y selects Bidder 1 as the best alternative to the TDR offer
February 2011	TDR begins first stage of final due diligence
May/June 2011	TDR completes final due diligence. Initial offer is revised as EBITDA forecasts fall
June/September 2011	Competing offer from Bidder 1 and discussions on price delay completion
27 September 2011	Final completion of transaction. Total consideration £[✂]m

Source: SitexOrbis, Bidder 1 and E&Y.

7. In relation to the sales process, SitexOrbis told us:

(a) Sixty companies were approached and 20 signed non-disclosure agreements.

(b) Private equity companies were willing to bid more than trade buyers.

(c) Many buyers were put off by the pan-European structure of the business.

(d) UK private equity firms were only really interested in SitexOrbis UK.

(e) In total, five firm offers were received: from Bidder 1, [✂], [✂], [✂] and [✂]. One bid was also received from a trade buyer but this was ruled out at an early stage.

(f) In February 2011 the Bidder 1 bid was selected by E&Y as the best alternative offer to the bid from TDR.

(g) Three private equity companies ([✂], [✂] and [✂]) indicated a willingness to enter negotiations if [✂] million.

8. The decision to choose TDR as successful bidder was made by shareholders and based on advice from E&Y.

Rationale for the sale of the SitexOrbis business

History of the SitexOrbis business prior to January 2008

9. In understanding the rationale for the sale, it is helpful to set out how SitexOrbis has evolved in the recent past. Table 2 sets out the history of SitexOrbis up to the January 2008 pre-pack.

TABLE 2 **History of SitexOrbis business prior to January 2008 pre-pack administration**

1994	Orbis plc lists on the London Stock Exchange
1990s	Pursues an acquisitive strategy
1999	Acquires Sitex Limited, creating SitexOrbis
2004	Original lenders to the business are Credit Industriel et Commercial (CIC), Lloyds Banking/Bank of Scotland and Dresdner. In 2004 Dresdner decides to exit its position as lender.
2005	Dresdner debt is acquired by three hedge funds—Orn, Och Ziff (OZ) and Trafalgar. The new lending group extends debt facilities for three years to early 2008. The lending consortium is then comprised of CIC, Lloyds Banking/Bank of Scotland, Orn, OZ and Trafalgar.
Spring 2007	The lending consortium becomes frustrated by poor performance of SitexOrbis and inability to influence management. It seeks to exit by requiring management to sell the business. It does this by threatening not to renew debt.
Q2/Q3 2007	KPMG is engaged to sell SitexOrbis but the sale is abandoned due to financial crisis.
Q42007	Lending consortium engages [✂] (a turnaround executive) to report on ways to restructure so they are either repaid or gain control. Fourteen courses of action are considered. Public to private pre-pack involving a debt for equity swap is chosen.
8 January 2008	Pre-pack is conducted by E&Y and Hogan Lovell (lawyers).

Source: SitexOrbis.

10. The pre-pack administration enabled SitexOrbis (managed in insolvency by E&Y) to repay 'most of the loans previously owned by the banking consortium' and complete the debt for equity swap. No new parties were involved in the refinancing.[3] SitexOrbis's lenders took a pro-rata share of both the new equity and debt financing. We were told that the total new pro-rata debt financing was £[✂] million plus a £[✂] million revolving credit facility.

11. Following the pre-pack administration, Michael Holmes (Group CEO) and the entire board of directors of Orbis plc resigned. The new owners employed David Walker and Oliver Cunningham as CEO and CFO to lead the turnaround of the business. Most of the senior management team in the UK were replaced.[4]

History of SitexOrbis after January 2008

12. We were told that the pre-pack administration was the starting point for a three-year plan for the new owners. Group financing was set up to expire in January 2011 giving the new management team three years to turn the business around and make it ready for sale by its owners.

13. In March 2010 Orn exited its investment as it was liquidating its fund. Trafalgar and OZ purchased the debt and equity held by Orn.

[3] Previous shareholders did not receive a payment. For reference, the market cap of Orbis plc in January 2008 was £250,000.
[4] Oliver Cunningham joined in January 2009. John Jukes (the CFO prior to the pre-pack administration) assisted David Walker for the first year following the pre-pack administration.

14. SitexOrbis's revenue expanded from £39.1 million in the year to September 2007 to £49.6 million in the year to March 2011. EBITDA was little changed over the period to FY10 at around £6 million before falling to £4 million in FY2011. In 2008 SitexOrbis expanded into the commercial sector, an area where VPS was the largest player, and grew revenues to £[✂] million by FY11. [✂]

15. VPS told us that in January 2011 further debt restructuring was put in place because of SitexOrbis being unable to pay the finance put in place during the 2008 restructuring.[5,6]

16. SitexOrbis told us that: 'The January 2011 transaction was not a debt restructuring process but only an extension of existing facilities completed at short notice once it had become clear the TDR transaction was going to be delayed'.

17. We were told that this loan extension was due on 10 July 2012. We were also told that the loan had an option for a further 12-month extension to June 2013.

Valuation of SitexOrbis

18. VPS/TDR told us that TDR individuals took leadership on larger acquisitions and VPS management on smaller acquisitions. In the case of the SitexOrbis acquisition, TDR led the acquisition from start to finish.[7, 8]

19. We consider TDR's rationale for acquiring SitexOrbis in Section 3 of the main report.

20. E&Y told us that expectations from the sale process were for a valuation based on a [✂].

21. In its valuation of SitexOrbis, TDR applied a multiple of [✂] to an assumed run rate group EBITDA of £[✂] million[9] to reach a valuation of £[✂] million. SitexOrbis group EBITDA was £[✂] million in 2008, £[✂] million in 2009 and £[✂] million in 2010.

22. EBITDA estimates for SitexOrbis fell during the sales process and the FY2011 result of £[✂] million EBITDA [✂] contained in the Information Memorandum.

23. In its pre-diligence modelling of the transaction, undertaken in August 2010 (a year prior to the acquisition), TDR saw an opportunity [✂].

24. Bidder 1 in its proposal initially valued SitexOrbis at £[✂] million in December 2010. This was a [✂] multiple on £[✂] million EBITDA expected for March 2011 less £[✂] million maintenance capital expenditure. The offer was later revised down to £[✂] million.

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[5] Initial submission, p11, 29 March 2012.
[6] Initial submission, p10, 29 March 2012.
[7] Initial submission, p11, 29 March 2012.
[8] VPS board minutes over the period 2008 to 2011 show that the company considered numerous potential acquisitions, especially in the USA, UK and France. These included both direct competitors as well as companies in adjacent business areas. For example, acquisitions in Environmental Testing, Tiling, Alarms, Fire & Flood Repair, Painting & Decorating (with a view to moving into graffiti removal) and a key software provider ([✂]) were considered. Acquisitions of competitors considered by the board included [✂]. UK-based acquisitions considered included [✂].
[9] £[✂] million was actually the group's EBITDA in 2011. PWC believed £[✂] million was [✂] the run rate group EBITDA.

Synergies expected from the acquisition

Europe-wide synergies

25. The PWC buy-side due diligence report estimated European-wide merger synergies at £[✂] million a year, with a further £[✂] million of synergies considered possible. Most of these savings were in the UK and France, where business overlap was greatest.

26. The potential Europe-wide negative EBITDA impact from customer losses was estimated at £[✂] million. We comment further on this in paragraph 32, as most ([✂] per cent) of this impact was expected in the UK.

UK synergies

27. TDR believed that, if it acquired SitexOrbis, cost savings would [✂]. In particular, TDR believed that the cost structure of SitexOrbis was 'neither efficient nor sustainable' as it operated a more decentralized structure compared to VPS leading to higher overheads. Pre-merger business plans showed forecast overheads at [✂] per cent of revenues for VPS against [✂] per cent at SitexOrbis, for a similar level of revenues.[10]

28. The PwC buy-side due diligence report estimated UK synergies at £[✂] million a year with a further £[✂] million considered possible.

29. Table 3 shows the breakdown of these estimated cost savings.

TABLE 3 **UK cost savings**

		£ million
	SitexOrbis cost base	*PWC due diligence cost savings*
Depot	[✂]	[✂]
Central overhead	[✂]	[✂]
Sales & marketing	[✂]	[✂]
Total	[✂]	[✂]

Source: VPS.

30. [✂] set out in Table 4.

[10] Initial submission, p12, 29 March 2012.

TABLE 4 **UK cost savings**

Region	*VPS depots*	*SitexOrbis depots*	*Depots closed*	*Headcount reduction*
South-East	3	6	[✂]	[✂]
South-West	1	2	[✂]	[✂]
Wales	2	2	[✂]	[✂]
Scotland	4	2	[✂]	[✂]
Northern Ireland*	1	-	[✂]	[✂]
Midlands	4	5	[✂]	[✂]
Liverpool	1	2	[✂]	[✂]
Manchester	2	2	[✂]	[✂]
North-East	2	1	[✂]	[✂]
Yorks & Sheffield†	3	5	[✂]	[✂]
Republic of Ireland	1	-	[✂]	[✂]
Total	24	27	[✂]	[✂]

Source: VPS.

*In fact SitexOrbis had one depot in Northern Ireland and one in the Republic of Ireland. VPS did not have depots in either location prior to the merger. This table also includes multiple depots in essentially the same location, which we have counted as a single depot in our analysis. We have shown the table as produced in the PwC due diligence report.
†[✂]

31. [✂]

32. Lost EBITDA to competitors (£[✂] million a year in the UK) was expected to arise from some customers wishing to maintain dual sourcing arrangements 'even in the absence of price rises'. According to TDR, there is 'little analysis' behind the estimate, which is based on no price changes and [✂] per cent of SitexOrbis UK customers being lost. The PwC due diligence report noted that TDR/VPS believed that the risk of lost customers was low.

33. One-off costs to achieve the Europe-wide synergies were estimated at £[✂] million. These costs were not fully broken down by country. However, some specific costs are set aside for the UK business, including £[✂] million costs in reducing headcount and £[✂] million in depot restructuring.

Counterfactual

1. This appendix sets out evidence on the counterfactual to VPS's completed acquisition of SitexOrbis. Throughout this appendix, when we refer to 'the former owners' of SitexOrbis we mean the owners prior to the merger, namely Och Ziff (OZ), Trafalgar, Lloyds Banking Group/Bank of Scotland (LBG) and Credit Industriel et Commercial (CIC), which were both the debt providers and equity owners of the business.

2. In this appendix we set out:

    (a) the CC's guidelines on the counterfactual;

    (b) a summary of the parties' views on the counterfactual; and

    (c) a summary of evidence on the counterfactual.

3. As per the terms of our reference (see Appendix A), we have assessed the counterfactual in relation to what might have happened had VPS not acquired SitexOrbis Holdings Limited (ie the SitexOrbis group comprising the UK and European businesses of SitexOrbis Holdings Limited). We received no evidence that a partial sale or break-up of SitexOrbis group was seriously considered.

CC guidelines on the counterfactual

4. The application of the SLC test involves the CC reaching a view on the 'counterfactual' situation. This is what the competitive situation would have been without the merger. The Merger Assessment Guidelines[1] set out that:

    > To help make this judgement on the likely future situation in the absence of the merger, the CC may examine several possible scenarios, one of which may be the continuation of the pre-merger situation; but ultimately only the most likely scenario will be selected as the counterfactual. When it considers that the choice between two or more scenarios will make a material difference to its assessment, the CC will carry out additional detailed investigation before reaching a conclusion on the appropriate counterfactual. However, the CC will typically incorporate into the counterfactual only those aspects of scenarios that appear likely on the basis of the facts available to it and the extent of its ability to foresee future developments; it seeks to avoid importing into its assessment any spurious claims to accurate prediction or foresight. Given that the counterfactual incorporates only those elements of scenarios that are foreseeable, it will not in general be necessary for the CC to make finely balanced judgements about what is and what is not the counterfactual.[2]

Summary of VPS/TDR views on the counterfactual

5. VPS stated that:

[1] *The Guidelines*.
[2] *The Guidelines*, paragraph 4.3.6.

> … it is appropriate to consider SitexOrbis' financial difficulties when considering the counterfactual against which to assess the competitive impact of the acquisition of SitexOrbis by VPS. The financial restructuring in 2008 which resulted in SitexOrbis' lenders taking a majority equity stake and control of the company, and the further restructuring in 2011 when debt could not be repaid, demonstrate that the prospect of prevailing conditions continuing is not realistic. SitexOrbis clearly would have become a significantly weaker competitive constraint absent the merger, as under its previous owners SitexOrbis would have continued to suffer due to its inability to invest in future growth as a result of its high levels of debt.[3]

6. TDR said that:

> Given recent debt market conditions and SitexOrbis' history of multiple debt restructurings, it is TDR's belief that under a continuation of the previous ownership, SitexOrbis would have been unable to refinance externally without a substantial reduction in the level of debt outstanding (i.e. a write-off for the debtholders).[4]

7. VPS/TDR believed that the former owners of SitexOrbis 'would not have agreed'[5] to a debt write-down and as a result 'would not have necessarily exited the market, but would have nevertheless have been in financial difficulty and would have been a weakened competitive force in the future' and therefore 'the competitive constraint imposed by SitexOrbis would have been highly unlikely to continue'.[6]

Evidence on the counterfactual

8. In order to assess the appropriate counterfactual, we have considered two possible scenarios in the event that SitexOrbis had not been sold to VPS:

   (a) SitexOrbis were not sold and remains an independent entity under the same ownership. In this scenario, we consider whether in the absence of an acquisition SitexOrbis would have been likely to remain a viable independent competitive entity.

   (b) SitexOrbis were bought by an alternative buyer. In this scenario, we consider whether SitexOrbis would have been likely to have been acquired by an alternative purchaser and whether any alternative purchaser might cause competition concerns.

9. In this appendix, we consider the SitexOrbis group (that is, the Continental Europe plus UK, Republic of Ireland and Guernsey businesses) because the sales process covered the SitexOrbis group and we have not seen any evidence that the Continental European operations would have been sold separately (despite the fact that the transaction was structured as two separate purchase agreements of Continental Europe and the UK, Republic of Ireland and Guernsey businesses).

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[3] Initial submission, p38.
[4] Initial submission, p38.
[5] Initial submission, p39.
[6] Initial submission, p39.

Would SitexOrbis have remained a viable independent competitive entity?

10. To assess the viability of SitexOrbis as an independent entity, we have considered:

(a) financial performance; and

(b) access to funding.

Evidence relating to financial performance

11. We set out in Table 1 summary financial information for the SitexOrbis Group (covering the UK and Europe) for financial years ended 31 March 2008 to 31 March 2011.[7]

TABLE 1 **Group key financials**

				£ million
	FY08	*FY09*	*FY10*	*FY11*
Sales	39.4	44.7	50.8	49.6
Gross profit	[✄]	[✄]	[✄]	[✄]
Gross margin (%)	[✄]	[✄]	[✄]	[✄]
EBITDA	[✄]	[✄]	[✄]	[✄]
FCF post-capex	[✄]	[✄]	[✄]	[✄]
Total interest	[✄]*	[✄]	[✄]	[✄]
Profit after tax (pre-amortization)		[✄]	[✄]	[✄]
Net debt†	[✄]	[✄]	[✄]	[✄]
Net debt†/EBITDA	[✄]	[✄]	[✄]	[✄]

Source: SitexOrbis.

*We only have management and statutory accounts for FY09 onwards.
†Before adjustment for accrued interest.

12. Based on Table 1 and the underlying sources of evidence used to compile this table, we make the following observations of SitexOrbis group:

(a) Throughout the period FY08 to FY11 the group generated positive EBITDA, operating free cash flow and free cash flow post capital expenditure. It also grew sales from £39.4 million in FY08 to £49.6 million in FY11.

(b) Net debt [✄]. We view the level of leverage, measured as net debt/EBITDA and shown in Table 1 at between [✄] and [✄], as reasonably high.

(c) In each year total interest was comfortably covered by both EBITDA and free cash flow *after* capex.

(d) The reduction in Group EBITDA from FY09 to FY11 was attributed in due diligence to the competitive environment, a lower level of Government spending in the UK (affecting social housing revenues), pricing pressure and investment in overheads (mainly in the UK).

(e) The reduction in profit after tax was caused by lower operating profit, exceptional charges and interest costs.

13. Management accounts to August 2011 (ie the first five months of FY2012) show that EBITDA improved by [✄].

[7] We note that 'UK and Ireland' is the reporting line in the statutory and management accounts and therefore the UK cannot be separated.

14. TDR told us that:

> Information received from E&Y suggests that SitexOrbis was not able to afford its interest payments in the periods leading up to January 2011. Specifically, TDR was informed that, in the first half of the 2010/11 financial year (April–September 2010), the cash flow of £[✂] generated by SitexOrbis Group was not sufficient to cover interest payments on the outstanding debt.

15. TDR told us that adjusting (so that working capital reflected typical levels for SitexOrbis) for working capital SitexOrbis would have generated £[✂] million in cash over FY2009 to FY2011 and a £[✂] million cash outflow in FY2011.

16. In assessing SitexOrbis's financial performance we noted that:

    (a) SitexOrbis’s internal documents from September 2010 show £[✂] million in undrawn facilities. SitexOrbis said that undrawn facilities were £[✂] million. The group therefore had adequate resources to cover a shortfall of the magnitude described by TDR.

    (b) SitexOrbis management accounts for the year to January 2011 showed operating free cash flow of £[✂] million, cash flow before funding of £[✂] million and a debt service cost of £[✂] million. Cash flow in January [✂]—see also paragraph 17).

    (c) There was [✂].

    (d) ‘Former Owner 4’ (see below) told us that the debt was serviceable and had been serviced. It also said that a balance sheet restructuring was not considered necessary.

17. We agree that the cash inflow in FY2011 was helped by good working capital management but assess that, even if we were to adjust working capital, the size of the outflow indicated by TDR (£[✂] million—see paragraph 15) is small in both absolute terms and relative to available undrawn facilities. It does not provide compelling evidence of a company suffering material cash-flow problems and likely to significantly change its strategy in the foreseeable future.

18. This adjusted outflow must also be set in the context of adjusted cash generation in FY2009 and FY2010 and clear indications (from the management accounts) of an improvement in trading in the period after FY2011.

19. We note that SitexOrbis told us that its expansion plans in the commercial sector, where it planned to continue to grow, required no capital investment (but rather working capital finance) as the infrastructure had already been built.

20. We also note that statements of the former owners of SitexOrbis regarding the availability of future funding are important in assessing whether access to finance for SitexOrbis would have been materially reduced and in assessing the claims made by TDR/VPS in paragraphs 6 and 7. We assess this in paragraphs 22 to 34.

Our assessment of the financial performance of SitexOrbis

21. In our view, the SitexOrbis group financial profile is not consistent with a failing company likely to exit the marketplace in the foreseeable future. Nor does the financial profile suggest that SitexOrbis would have become a significantly weaker competitive constraint absent the merger. It is our assessment, based on an analysis of

the financial information available, that SitexOrbis would have continued to function in a broadly similar way as it had done in the period running up to the merger. Indeed, we note that SitexOrbis had been functioning with high levels of leverage for most of its corporate history. We consider next whether there would have been sufficient finance available under the previous ownership for SitexOrbis to remain an effective competitor.

Evidence relating to access to financing

22. In Appendix B, we explained how the financing of the SitexOrbis business was changed in 2008 following a public to private pre-pack administration with a debt for equity swap. We were told that the pre-pack was the starting point for a three-year plan for the former owners, with group financing set up to expire in January 2011, giving the management team three years to turn the business around ready for exit. We note that the shareholders also provided the debt financing for the business.

23. SitexOrbis told us that in January 2011 (when the debt matured) it was extended due to the ongoing sale process.

24. The bank loan was payable at [✄] per cent above LIBOR (the London Inter-bank Offering Rate) and was [✄]. Following extension in January 2011, it was due on 10 July 2012. We were told that the loan extension granted during the sales process had an option for a further 12-month extension to June 2013.

25. In exploring whether further financing would have been forthcoming, we have assessed SitexOrbis's performance against its financial covenants and the views of the former owners who provided financing to the business.

26. We set out the financial covenants of the loan in Table 2 and SitexOrbis's quarterly performance against them during FY2010 and FY2011 in Table 3. There was a change in covenants following the January 2011 loan extension. The covenants applied to 12-month cumulative financial performance.

TABLE 2 **SitexOrbis covenants**

Covenant name	*Covenant level to January 2011*	*Covenant level to March 2011*
EBITDA (£m)	[✄]	[✄]
Operating cash flow (£m)	[✄]	[✄]
Interest cover (EBITDA/ P&L interest)	[✄]	[✄]
Debt/EBITDA	[✄]	[✄]

Source: SitexOrbis.

TABLE 3 **SitexOrbis performance against financial covenants**

Covenant	*FY2010*				*FY2011*			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
EBITDA	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Operating cash flow	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Interest cover	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Debt/EBITDA	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]

Source: SitexOrbis.

27. We make the following observations from Tables 2 and 3:

(a) [✄].

(b) SitexOrbis's 2011 financial statements indicated a covenant breach. They also stated that the loan became repayable on demand on 31 March 2011 due to a covenant breach for which a waiver letter was not received. We have been told that the wording in the statutory accounts was inaccurate, that [✄], and that at no time after January 2010 has the loan been repayable on demand.

28. One of the former owners ('Former Owner 1') of SitexOrbis told us that SitexOrbis was still generating cash and it was highly unlikely that the former owners would have chosen to reduce available financing.

29. 'Former Owner 2' told us that if TDR had not purchased SitexOrbis, then the former owners would have reset the covenants and continued to finance the business on a similar basis. It said that liquidating the business or aggressively restricting finance would not have been a good idea as it would have destroyed value for the former owners.

30. 'Former Owner 3' told us that if TDR had not bid, then SitexOrbis would have either been sold to another Private Equity house ('Bidder 1'—see below) or the former owners would have continued to hold the business for a period of time. It said that if the former owners had continued to own the business, they would have reset the covenants. It also said that restricting finance or liquidating the assets would not have been a sensible course of action as it would have delivered a much lower economic value to the former owners.

31. 'Former Owner 4' told us that the debt was serviceable and had been serviced. It said that a balance sheet restructuring was not considered necessary and if the business had not been sold it would have extended facilities with covenants reset based on a new management forecast.

32. E&Y, who advised the former owners in the sale process, told us that in their view, [✄].

33. E&Y told us that a key negotiating point during the sale process was that the former owners did not have to sell and could continue to own the business.

34. E&Y said that [✄]. It said that they would have been more likely to hold the business for another couple of years, look for efficiencies and then look to re-engage with the sales process.

Alternative buyers of SitexOrbis

35. We now consider the second question in our assessment—in the absence of the acquisition by VPS, would SitexOrbis have been acquired by an alternative purchaser?

36. VPS/TDR submitted that for the former owners of SitexOrbis £[✄] million represented a 'minimum' valuation and that no other party could have met this valuation and guaranteed funding and deliverability.

37. The Merger Assessment Guidelines state:

> The Authorities will take into account the prospects of alternative offers for the business above liquidation value. The possible unwillingness of alternative purchasers to pay the seller the asking price would not rule

out a counterfactual in which there is a merger with an alternative purchaser.[8]

38. Former Owner 1 told us that covering its debt investment in the business was the minimum offer it would have considered. This would imply that a valuation below £[✄] million but above liquidation value might have been acceptable.

39. [✄]

40. The sales process was conducted by E&Y following TDR's formal approach in March 2010. There were a number of interested parties, and a number of indicative offers were made in addition to the TDR bid. E&Y told us that there was a bid from [✄] (a trade bidder). We outline below the bids made for SitexOrbis during the E&Y process. The 'Bidder 1' bid (see below) developed furthest; the other indicative bids did not progress beyond the indicative bid stage of the sales process.

41. When considering the indicative bids made, we note that actual group EBITDA for FY2011 was £[✄] million compared with £[✄] million forecast in the E&Y Information Memorandum of June 2010. As a result, initial bids submitted on the basis of this forecast were [✄].

Bidder 1's bid

42. Bidder 1 is a leading UK mid-market private equity house and supports businesses with equity values of between £2 million and £100 million. On 14 December 2010, Bidder 1 made an indicative bid of £[✄] million for SitexOrbis. This was [✄]. A second offer (22 July 2011) was sent directly to Trafalgar Asset Managers valuing the business at £[✄] million. This second offer was based on the assumption that draft EBITDA of £[✄] million for FY2011 was confirmed, together with the assumptions for the £[✄] in FY2012. Further, £[✄] was assumed to be available.

43. In its second offer letter, Bidder 1 sought to address a number of concerns which had been raised about its bid by E&Y. In particular, [✄].

44. Bidder 1 [✄].

45. Bidder 1 told us that it thought the SitexOrbis management team was credible. It knew that there was a strong buyer in the background (VPS) which could likely pay more for the business. Bidder 1 felt that it would be a strong contender if the VPS bid fell away.

46. Bidder 1 told us that it planned to finance the transaction through equity and debt. It thought that the planned debt finance of £[✄] million on the transaction was very deliverable given that the business was producing about £[✄].

47. SitexOrbis told us that E&Y determined that the Bidder 1 bid was credible, the most competitive to TDR's bid and had the support of management.

E&Y on the Bidder 1 bid

48. [✄]

49. [✄]

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[8] *The Guidelines*, Part 4, paragraph 4.3.17.

50. E&Y told us that three out of the four former owners met with Bidder 1 when assessing the bid.

51. [✂][9]

52. [✂]

Indicative bids made by other parties

53. In this section we summarize the indicative bids made by other parties. There was one trade buyer and four private equity bidders (in addition to Bidder 1).

[✂]

54. [✂]

[✂]

55. [✂]

56. [✂]

57. [✂]

[✂]

58. [✂]

[✂]

59. [✂]

60. [✂]

[✂]

61. [✂]

62. [✂]

63. [✂]

Other possible bidders

64. SitexOrbis also told us that other private equity companies indicated a willingness to enter negotiations if the price moved below £[✂] million. These were identified as [✂] and [✂]. We note that [✂] also made an indicative offer during the 2007/08 restructuring.

65. E&Y told us that if both the TDR and Bidder 1 bids had fallen through, there [✂].

[9] SitexOrbis told us that TDR's willingness not to make the transaction dependent on clearance by the OFT, combined with lower financing risk compared with Bidder 1, were critical factors in its ability to offer quick closure.

Local/regional markets and geographical coverage

1. In this appendix we set our approach to the assessment of local markets and the geographical coverage provided by current suppliers of SSVP.[1] We used data on current locations of depots and customers to determine how far suppliers actually travelled to serve their customers and to investigate how far they were willing to travel on a regular basis.[2] This analysis allowed us to identify the geographical coverage of the main parties and their rivals, as well as the degree of overlap between them.

2. The appendix is structured as follows. We first report the main parties' and third parties' views on the issue. We then present our analysis of actual distances travelled by VPS and SitexOrbis to serve their customers. We then assess the main parties' geographical coverage and degree of overlap. Finally, we assess the geographical coverage of the main alternative suppliers of SSVP.

3. The analysis in this appendix was relevant both to the definition of the relevant geographic market and to the assessment of unilateral horizontal effects at local or regional level. This corresponded to the first theory of harm in our issues statement:

> The first theory of harm is that the merger would remove an important competitive constraint at the local or regional level. Currently, it appears that the merging parties have significant geographic reach at a local and regional level via their depot networks. Following the merger, the loss of SitexOrbis as a competitive constraint on VPS at a local or regional level could lead to higher prices and/or a lower quality of service offering.

Catchment area analysis to assess local markets and geographical coverage

4. To the extent that competition took place at the local/regional level, we investigated the scale of local/regional markets and the local/regional presence of both main parties and competitors.

5. Catchment area analysis helped us to identify the size of the local markets and the extent to which the parties overlapped with each other and with their competitors at the local/regional level.

6. Catchment area analysis was also useful to assess the geographical coverage of each of the main parties and their competitors. This was relevant to identify market players' ability to operate and therefore compete at a local, regional and national scale.

7. The catchment area analysis:

   (a) identified geographical coverage of each of the main parties and their competitors in the UK;

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[1] See paragraph 5.2 of the main report.
[2] Our catchment area analysis was designed to identify how far suppliers regularly travelled to supply most of their customers. We recognized that suppliers may, on occasion, be prepared to supply individual customers at longer distances.

(b) identified local areas where SitexOrbis and VPS did not overlap and the merger might not have altered actual competition but where there might still have been a reduction in potential competition between the merging parties;

(c) identified local areas where overlaps between SitexOrbis and VPS were observed and the merger would have altered actual competition; and

(d) identified other competitors active in overlapping areas that could have imposed a competitive constraint on the merged entity.

Views expressed by the parties

8. Over the course of the inquiry main and third parties submitted their views on local/ regional competition, especially regarding suppliers' ability to serve customers from distant locations.

Main parties

9. VPS provided us with an analysis of its customers for each depot, showing the distance that the 80^{th} and 100^{th} percentile customers were from each depot. The average distance for the 80^{th} percentile was [20–30] miles for social and [40–50] miles for commercial. VPS reported average maximum distances to be [60–70] miles for social housing customers and [90–100] miles for commercial customers. VPS also expressed its view that it could be economical to travel beyond [100–110] miles to serve commercial customers. VPS said that using [50–60] miles for social housing customers and [70–80] miles for commercial customers was reasonable and indeed relatively conservative.

10. SitexOrbis said that it could be economical to travel approximately up to 1 hour to serve commercial customers.

Competitors

11. In the context of third party market questionnaires and hearings, currently active suppliers of SSVP provided their views regarding distances actually travelled to serve their customers. Their views are summarized in Table 1.

TABLE 1 **Competitors' views on distances actually travelled to serve customers**

Competitor	*Catchment areas*
SPS Doorguard	Willing to travel economic distances to serve customers
Clearway	Erith: 80% customers within 30 miles
	Sheffield: 80% customers within 10 miles until 2011, 60–70 miles now
SecureSite	80% customers within 100 miles
Maltaward	80% customers within 30 miles
North Star Estates	80% customers within 60 miles, maximum distance 85 miles
Loxal	Maximum distance up to approximately 100 miles

Source: Third party hearings and responses.

Data submitted by the main parties

12. In the catchment area analysis, we sought to identify the geographic area around each depot within which a large proportion of the depot's business is generated. To do that we obtained from the main parties data on the location of each property

served from a given depot and the value of the vacant property security services supplied. We have based our analysis of local catchment areas on the data on depots' and customers' locations submitted by the main parties.

VPS

13. VPS provided the location of its depots, including all depots currently operational and a number of depots closed over the last five years. VPS did not provide the location of single properties served. Instead it submitted data at customer level. For each customer, VPS provided the number of properties secured and the average distance between the customer's properties and the serving depot.

14. VPS provided its own estimation of catchment areas for each of its depots, on the basis of actual sales data and distinguishing between commercial and social housing business. It identified the geographic areas around each depot covering 80 and 100 per cent of the customers served from that depot.

SitexOrbis

15. SitexOrbis provided the location of its depots, including all depots currently operational and a number of depots closed over the last five years. SitexOrbis also provided the location of the properties secured between 2010 and 2011.

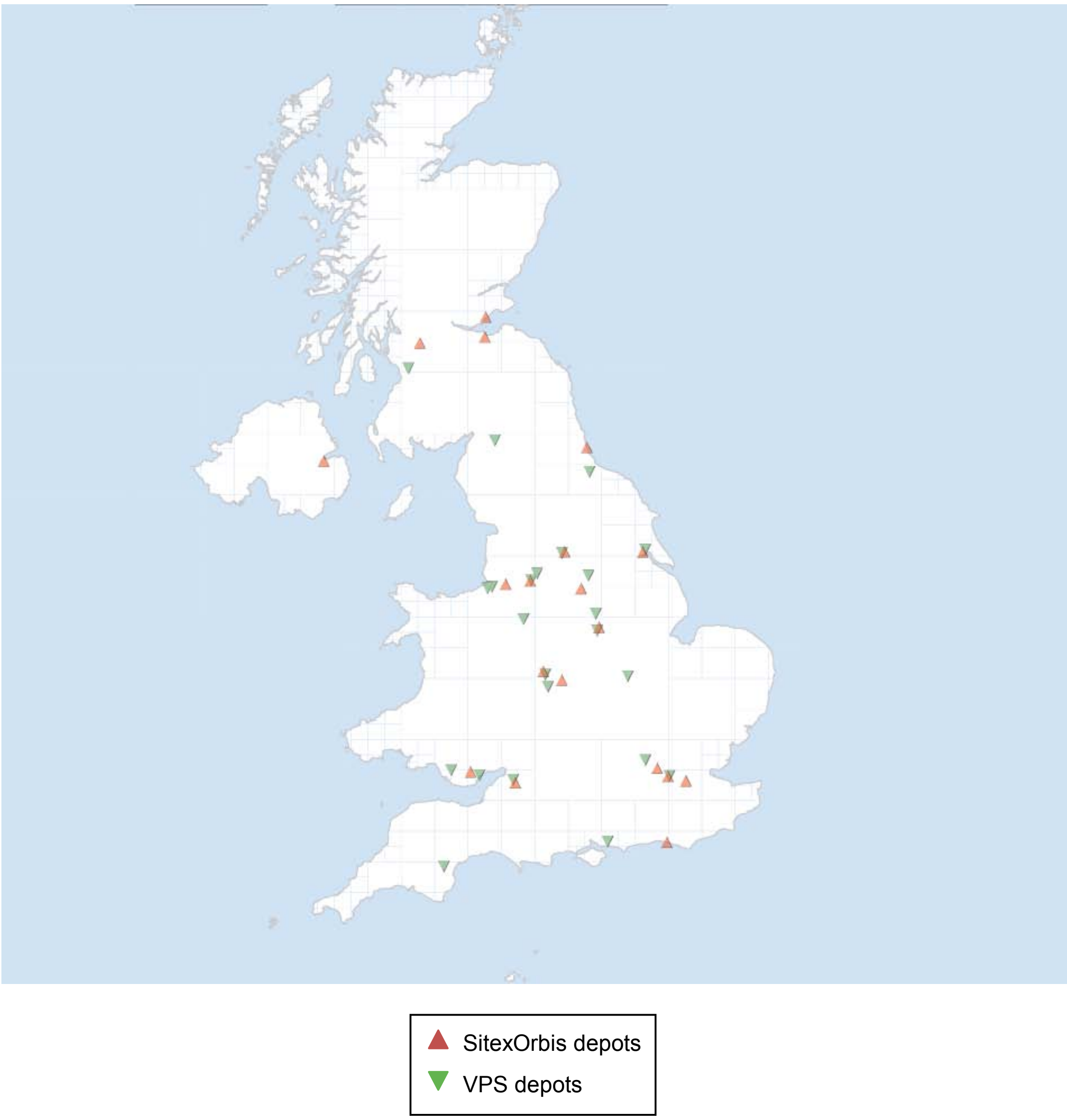
VPS's and SitexOrbis's current networks of depots

16. VPS and SitexOrbis had a similar number of depots and their depot networks showed similar geographic profiles: SitexOrbis had 20 depots across the UK, including one depot in Northern Ireland, and VPS had 23 depots across England, Scotland and Wales, but no presence in Northern Ireland. Both VPS and SitexOrbis tended to concentrate their depots in the areas of Greater London; Bristol and Wales; and large cities in the Midlands and the North of England. Figure 1 shows the location of VPS and SitexOrbis depots.

17. Figure 2 shows the location of alternative SSVP suppliers. All of them had considerably smaller networks than VPS and SitexOrbis. SPS Doorguard had the largest network, operating from four depots. Clearway operated from two depots. We also identified a number of smaller suppliers. They mainly operated from depots located in Greater London and the South-East; the Midlands and north England; and Scotland.

FIGURE 1

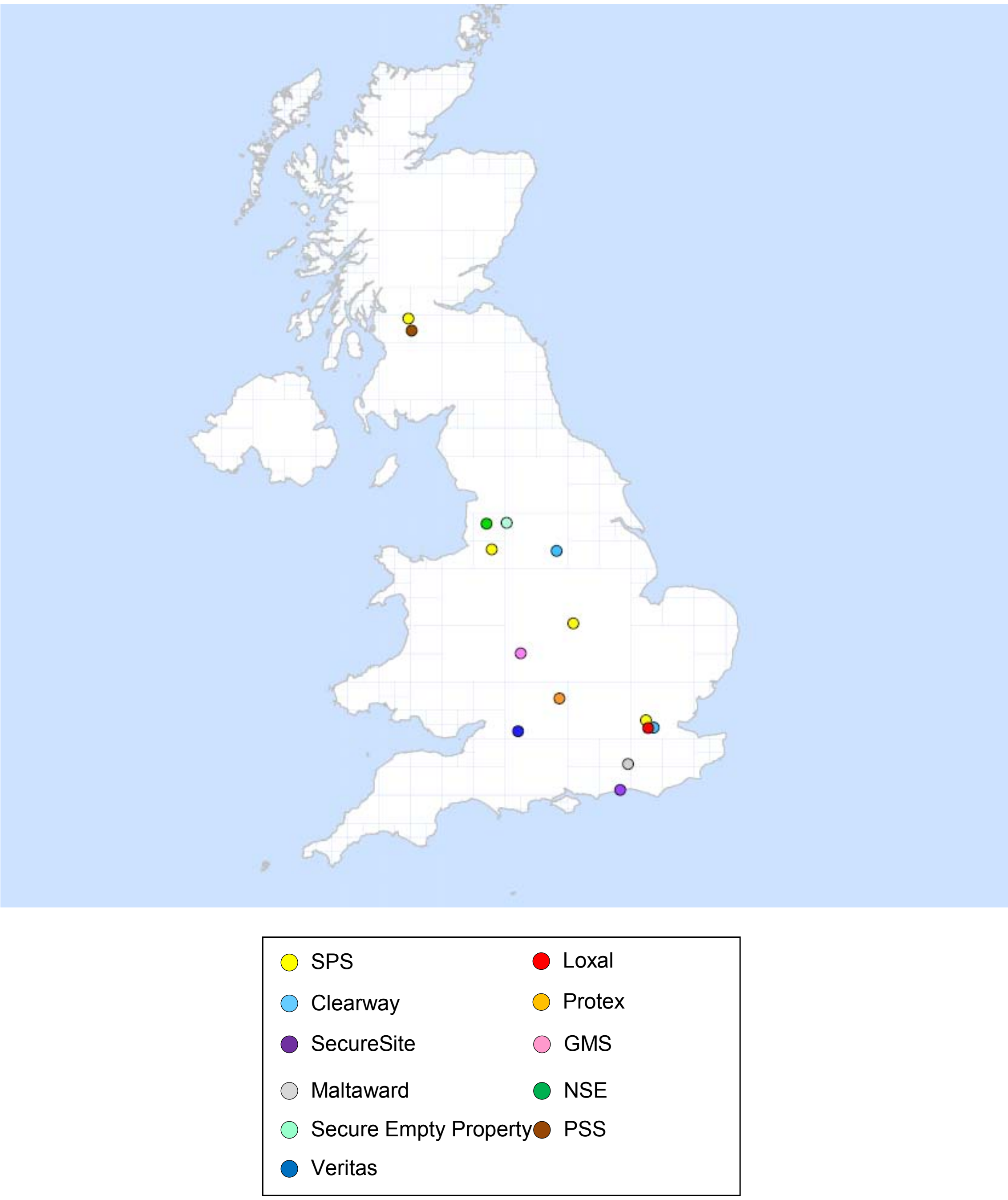
Locations of VPS and SitexOrbis depots



Source: Locations provided by the parties, CC analysis.

FIGURE 2

Locations of alternative suppliers' depots



Source: Locations provided by third parties, CC analysis.

18. Both the main parties and their competitors may additionally have had a number of small unmanned depots or 'lock-ups', most of them dependent on larger depots. We have not taken these 'lock-ups' into consideration in the catchment area analysis. As a consequence, our results may have overestimated the actual distances travelled by VPS and SitexOrbis to serve their customers, because some of their customers are served from lock-ups closer to their properties than the depots we have accounted for.

19. Additionally, suppliers may, in some cases, have used third party storage facilities. For instance, this can be the case when property management intermediaries subcontract SSVP to specialist suppliers. In such cases, those storage facilities will usually be used exclusively to serve the intermediaries' customers. We did not consider that these storage facilities should be treated as fully-fledged depots integrated in the specialist supplier's business strategy.

20. Table 2 provides the location of all depots depicted in Figures 1 and 2.

TABLE 2 **Location of depots by supplier**

Supplier	*Location*
VPS	Birmingham
VPS	Bradford
VPS	Bridgend
VPS	Bristol
VPS	Cardiff
VPS	Carlisle
VPS	Corby
VPS	Crewe
VPS	Deptford
VPS	Doncaster
VPS	Exeter
VPS	Hull
VPS	Kilmarnock
VPS	Liverpool
VPS	Manchester
VPS	Mansfield
VPS	Nottingham
VPS	Portsmouth
VPS	Salford
VPS	Stockton
VPS	Tipton
VPS	Watford
VPS	Wirral
SitexOrbis	Belfast
SitexOrbis	Bilston
SitexOrbis	Birmingham
SitexOrbis	Bradford
SitexOrbis	Brighton
SitexOrbis	Bristol
SitexOrbis	Cardiff
SitexOrbis	Dartford
SitexOrbis	Edinburgh
SitexOrbis	Glasgow
SitexOrbis	Hull
SitexOrbis	Kirkcaldy
SitexOrbis	North London
SitexOrbis	Nottingham
SitexOrbis	Salford
SitexOrbis	Seaham
SitexOrbis	Sheffield
SitexOrbis	Southwark
SitexOrbis	St Helens
SPS Doorguard	Glasgow
SPS Doorguard	Ilford
SPS Doorguard	Leicester
SPS Doorguard	Warrington
Clearway	Kent
Clearway	Sheffield
SecureSite	Sussex
GMS	Bromsgrove
Loxal	Erith
Maltaward	West Sussex
North Star Estates	Lancashire
Protex	Oxford
PSS	Glasgow
Secure Empty Property	Lancashire
Veritas	Chippenham

Source: Locations provided by each party.

Actual distances travelled by VPS and SitexOrbis

21. We used the data submitted by the main parties to investigate actual distances travelled by the main parties to serve their customers. These actual distances were likely to vary from depot to depot and between social housing and commercial customers. We therefore investigated actual distances travelled by depot and by type of customer.

22. We focused our attention on two metrics:

(a) the radius of the circular area around a depot within which 80 per cent of the depot's customers are located—hereafter, the '80%-customer area'; and

(b) the distance between the depot and the furthest property served from that depot—hereafter, the 'maximum distance'.

23. The maximum distance provided an indication of how far suppliers may have been willing to travel, but it was sensitive to outlier observations. Occasionally, suppliers may have needed to serve very distant properties from a given depot, without this implying that it would be economical to serve properties at that distance on a regular basis. The 80%-customer area provided a more robust measure of how far suppliers are willing to travel on a regular basis to serve customers.

24. Because the data covered the period 2010/11, a number of depots for which we received data were no longer operational at the time of our investigation, while some currently operational depots had not yet been opened in the period 2010/11.

Actual distances travelled by VPS

25. For each customer, VPS provided the number of properties secured and the average distance between the customer's properties and the depot from which they were served. We weighted each customer by the number of properties and used the average distances by customer provided by VPS to obtain for each depot the radius of the area covering 80 per cent of the depot's social housing customers and the radius of the area covering 80 per cent of the depot's commercial customers. We used maximum distances by customer provided by VPS to identify the maximum distance travelled from each depot.

26. We did not take into consideration depots below a minimum amount of business, due to the very limited amount of data available for them. In particular, we disregarded depots serving fewer than 100 social housing properties in the assessment of distances to social housing customers and depots serving fewer than 50 commercial properties in the assessment of distances to commercial customers.

27. Results from the analysis of VPS distances are reported in Tables 3 and 4.

28. We observed that VPS's 80%-customer areas were significantly larger when defined for commercial customers than for social housing customers. This indicated that VPS tended to travel longer distances to secure commercial properties than it does to secure social housing properties. Maximum distances travelled were not consistently larger for commercial than for social housing customers. This indicated that on a regular basis VPS travelled longer distances for commercial than for social housing customers, although, exceptionally, longer distances may also have been travelled for social housing customers.

29. We observed as well that 80%-customer areas were significantly larger in sparsely populated rural areas than they were in more densely populated urban areas. Distances between depots were also smaller in urban areas.

TABLE 3 **Actual distances travelled by VPS to serve social housing customers**

miles

Depot	*Radius of 80%-customer area*	*Maximum distance*
Bradford	[✂]	[✂]
Bristol	[✂]	[✂]
Carlisle	[✂]	[✂]
Deptford	[✂]	[✂]
Dundee	[✂]	[✂]
Hackney	[✂]	[✂]
Hull	[✂]	[✂]
IPS—Leeds	[✂]	[✂]
Liverpool	[✂]	[✂]
Manchester	[✂]	[✂]
Nottingham	[✂]	[✂]
Stockton	[✂]	[✂]
Stoke	[✂]	[✂]
Wales	[✂]	[✂]
Watford	[✂]	[✂]
Wednesbury	[✂]	[✂]
Weighted mean	[✂]	

Source: CC analysis based on data provided by the parties.

TABLE 4 **Actual distances travelled by VPS to serve commercial customers**

miles

Depot	*Radius of 80%-customer area*	*Maximum distance*
Bradford	[✂]	[✂]
Bristol	[✂]	[✂]
Corby	[✂]	[✂]
Deptford	[✂]	[✂]
Dundee	[✂]	[✂]
Hackney	[✂]	[✂]
Hull	[✂]	[✂]
Liverpool	[✂]	[✂]
Manchester	[✂]	[✂]
Nottingham	[✂]	[✂]
Portsmouth	[✂]	[✂]
Stockton	[✂]	[✂]
Wales	[✂]	[✂]
Watford	[✂]	[✂]
Wednesbury	[✂]	[✂]
Weighted mean	[✂]	

Source: CC analysis based on data provided by the parties.

Actual distances travelled by SitexOrbis

30. SitexOrbis provided both the location of its depots and the locations of the properties secured. It did not identify, however, the depot from which each depot was served, only the branch from which the customer was administratively managed. We assumed that each property was served from the closest depot, which is consistent with how the main parties told us they assigned work across their depots.

31. We used depots' and properties' locations to obtain for each depot the radius of the area covering 80 per cent of the depot's social housing customers and the radius of

the area covering 80 per cent of the depot's commercial customers. We also identified the maximum distance travelled from each depot.

32. Again, we did not take into consideration depots serving fewer than 100 social housing properties in the assessment of distances to social housing customers and depots serving fewer than 50 commercial properties in the assessment of distances to commercial customers.

33. Results from the analysis of SitexOrbis distances are reported in Tables 5 and 6.

34. As with VPS, the data indicated that on a regular basis SitexOrbis travelled longer distances for commercial than for social housing customers, although, exceptionally, longer distances may also have been travelled for social housing customers.

35. We also observed that 80%-customer areas were significantly larger in sparsely-populated rural areas than they were in more densely-populated urban areas. Distances between depots were also shorter in urban areas.

TABLE 5 **Actual distances travelled by SitexOrbis to serve social housing customers**

miles

Depot	*Radius of 80%-customer area*	*Maximum distance*
Bilston	[✂]	[✂]
Birmingham	[✂]	[✂]
Bradford	[✂]	[✂]
Brighton	[✂]	[✂]
Bristol	[✂]	[✂]
Cardiff	[✂]	[✂]
Dartford	[✂]	[✂]
Edinburgh	[✂]	[✂]
Glasgow	[✂]	[✂]
Greenock*	[✂]	[✂]
St Helens	[✂]	[✂]
Heywood	[✂]	[✂]
Hull	[✂]	[✂]
Kirkcaldy	[✂]	[✂]
London	[✂]	[✂]
Nottingham	[✂]	[✂]
Salford	[✂]	[✂]
Seaham	[✂]	[✂]
Sheffield	[✂]	[✂]
Southwark	[✂]	[✂]
Weighted mean	[✂]	

Source: CC analysis based on data provided by the parties.

*Actual distances were calculated including SitexOrbis's Greenock depot that was operational in 2011. SitexOrbis closed this Greenock depot in May 2012 and this depot was consequently excluded from any forward-looking analysis.

TABLE 6 **Actual distances travelled by SitexOrbis to serve commercial customers**

miles

Depot	*Radius of 80%-customer area*	*Maximum distance*
Bilston	[✂]	[✂]
Birmingham	[✂]	[✂]
Bradford	[✂]	[✂]
Brighton	[✂]	[✂]
Bristol	[✂]	[✂]
Cardiff	[✂]	[✂]
Dartford	[✂]	[✂]
Edinburgh	[✂]	[✂]
Glasgow	[✂]	[✂]
St Helens	[✂]	[✂]
Heywood	[✂]	[✂]
Hull	[✂]	[✂]
London	[✂]	[✂]
Nottingham	[✂]	[✂]
Salford	[✂]	[✂]
Seaham	[✂]	[✂]
Sheffield	[✂]	[✂]
Southwark	[✂]	[✂]
Weighted mean	[✂]	

Source: CC analysis based on data provided by the parties.

Estimated size of catchment areas

36. These results were informative of the actual distances travelled on a regular basis by VPS and SitexOrbis to serve their customers. However, considerable variation in the 80%-customer areas across depots (for example, see Figure 3) suggested that a number of depots are operating within limited geographic areas, not fully exploiting their potential geographical reach. This may be due to two main factors:

(a) Depots may have been located in local areas with high density of properties and operated at full capacity just by serving nearby properties.

(b) Depots of the same supplier may have been located relatively close to each other in densely-populated areas, mutually constraining their geographical coverage.

37. For example, Figure 3 shows the distribution of the 80%-customer area for VPS's social housing customers (see Table 1). We observed that [✂] of VPS's depots serve 80 per cent of their social housing customers within a 15-mile radius of the depot.

FIGURE 3

Radius of 80%-customer areas for VPS depots in the social housing sector

[✂]

Source: CC analysis based on data provided by the parties.

38. Suppliers may have been willing to travel longer distances than they actually did and these longer distances may still have proved economical when travelled on a regular basis. In order to obtain a measure of how far it is typically economical to travel, we focused our attention on those VPS and SitexOrbis depots where geographical coverage did not appear to be constrained by either of these two factors.

39. Figures 4 and 5 show actual 80%-customer areas for VPS and those in Figures 6 and 7 show actual 80%-customer areas for SitexOrbis. The smallest areas have been removed for presentational clarity, as not indicative of how far the parties are willing to travel.

FIGURE 4

VPS 80%-customer areas for social housing customers

[✂]

Source: Locations provided by VPS, CC analysis.

FIGURE 5

VPS 80%-customer areas for commercial customers

[✂]

Source: Locations provided by VPS, CC analysis.

FIGURE 6

SitexOrbis 80%-customer areas for social housing customers

[✂]

Source: Locations provided by SitexOrbis, CC analysis.

FIGURE 7

SitexOrbis 80%-customer areas for commercial customers

[✂]

Source: Locations provided by SitexOrbis, CC analysis.

40. [✂] We therefore considered that VPS 80%-customer areas provided a better indication of the longest distances a supplier is willing to travel on a regular basis. The largest VPS 80%-customer areas for social housing customers had a radius of [✂] miles. The largest VPS 80%-customer areas for commercial customers had a radius of [✂] miles.

41. [✂], which we noted will tend to maximize the size of the catchment areas (see Figure 3),[3] we defined the following ranges as catchment areas indicating how far it was typically economical to travel to serve social housing and commercial customers:

(a) between 30 and 40 miles for social housing customers; and

(b) between 60 and 70 miles for commercial customers.

[3] Larger catchment areas will tend to increase the number and extent of overlaps *(a)* between the merger parties and *(b)* between the merger parties and third party competitors. Therefore, in our full analysis of the competitive effects of the merger, we have, where appropriate, considered the effects of using alternative distances.

Main parties' geographic overlap

42. We used these catchment areas to identify the degree of overlap in the geographical coverage of VPS and SitexOrbis both in the social housing sector and in the commercial sector.

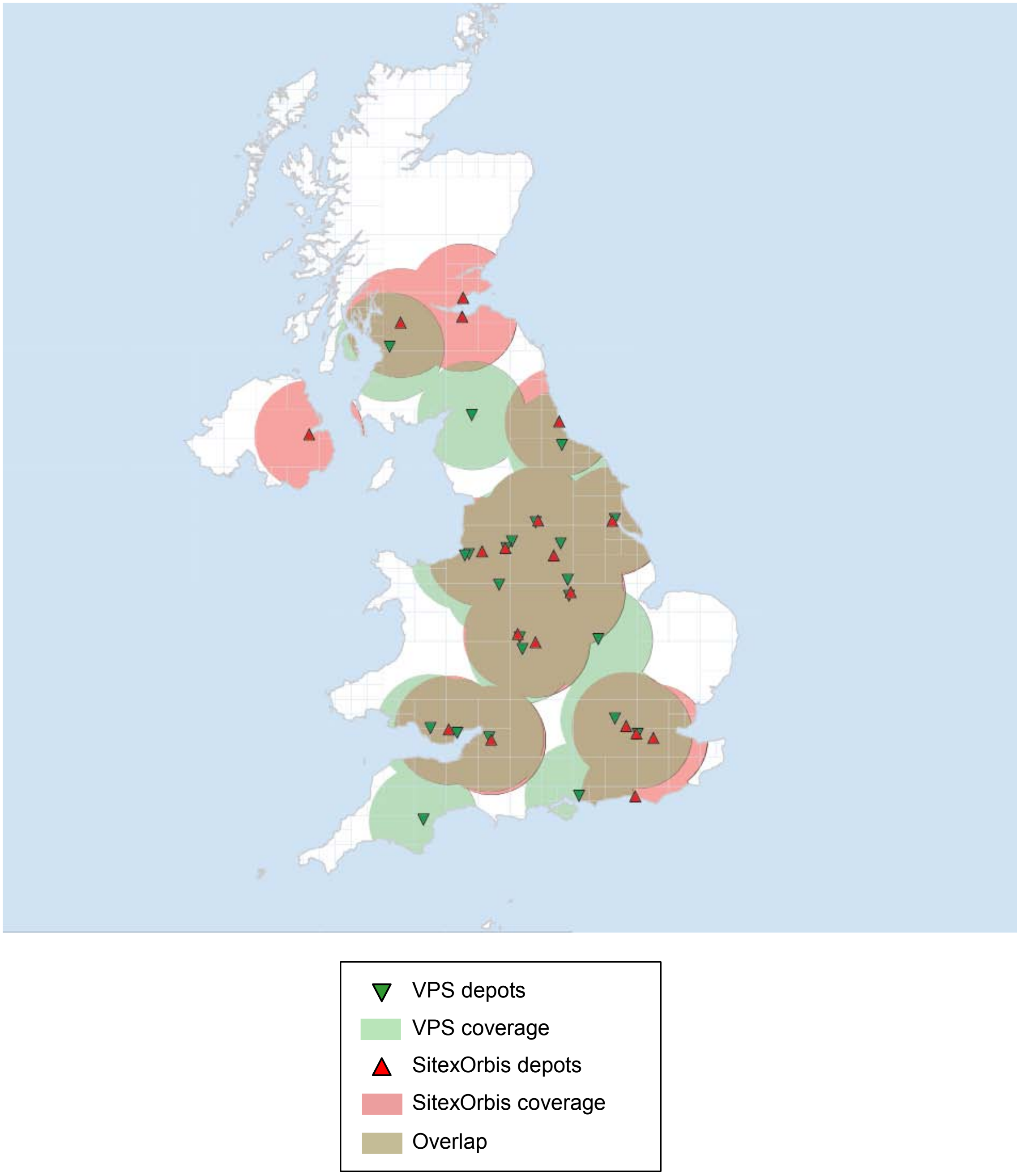
43. SitexOrbis and VPS depot networks showed a very similar profile in terms of geographic distribution of depots. Almost every SitexOrbis depot was located sufficiently close to a VPS depot to lead to a high degree of overlap.

44. In Figure 8, the brown area shows where VPS and SitexOrbis overlapped assuming catchment areas of 40 miles for the social housing sector. The main parties overlapped in the social housing sector in Greater London, the South-West, Cardiff and Bristol, the Midlands and the North of England. A lower degree of overlap appeared to exist in Scotland, mainly around Glasgow.

45. In Figure 9, the brown area shows where VPS and SitexOrbis overlapped assuming catchment areas of 70 miles for the commercial sector.

FIGURE 8

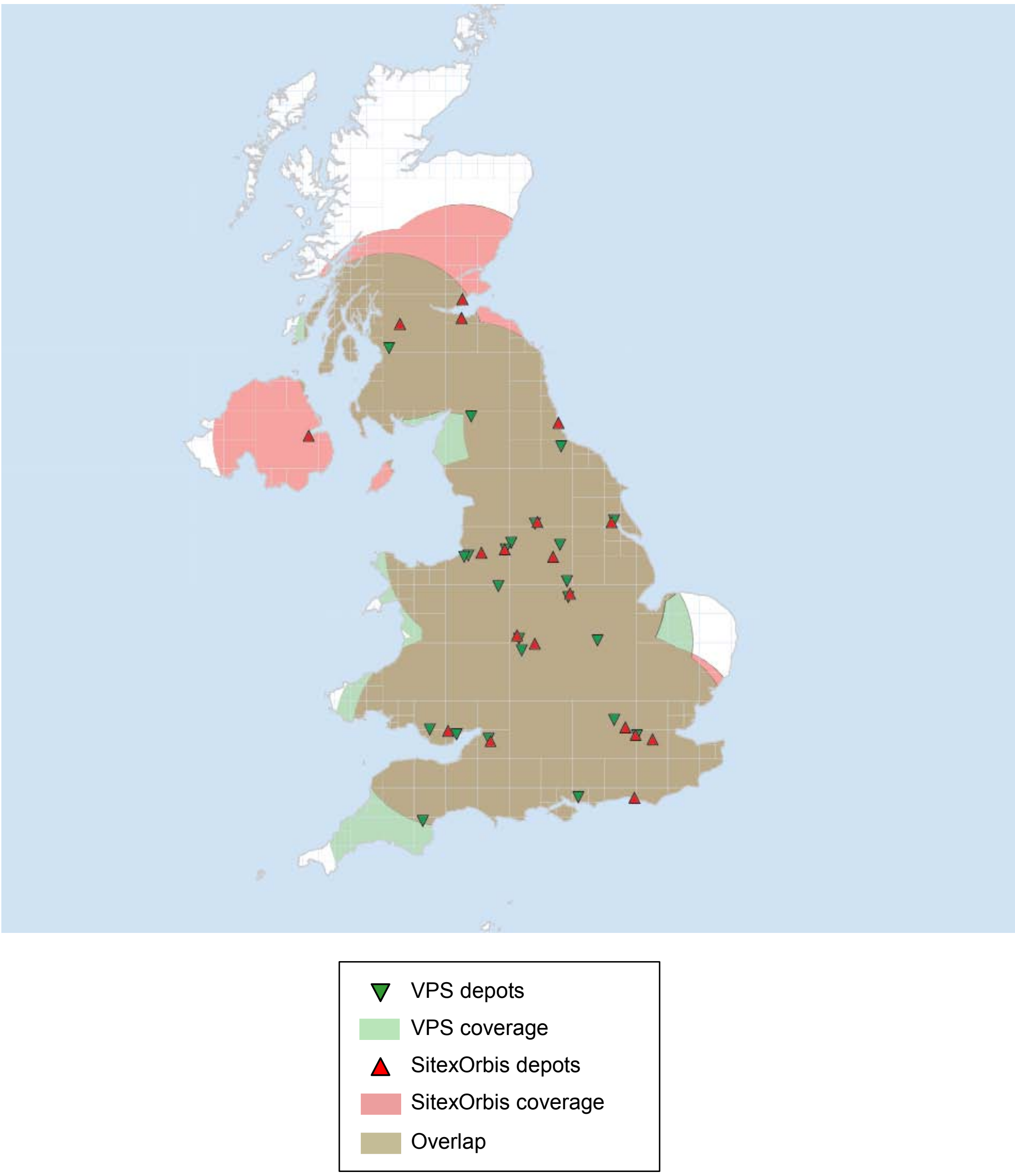
VPS and SitexOrbis overlap in the social housing sector (40-mile catchment areas)



Source: Locations provided by the parties, CC analysis.

FIGURE 9

VPS and SitexOrbis overlap in the commercial sector (70-mile catchment areas)



Source: Locations provided by the parties, CC analysis.

Competitors' geographic coverage

46. We used the 70-mile catchment areas defined for the commercial sector to investigate the geographical coverage provided by alternative suppliers of SSVP. We also investigated geographical coverage assuming larger catchment areas of 100 miles to account for the possibility that suppliers may occasionally have been willing to travel longer distances for valuable customers or sufficiently profitable jobs.

SPS Doorguard

47. Figure 10 shows the geographical coverage that SPS Doorguard provides from its four depots. Dark areas represent 70-mile catchment areas while light areas represent 100-mile catchment areas. On the basis of these catchment areas, SPS Doorguard would have covered most parts of Great Britain, with the exception of the South-West. This was likely to be the case for the commercial sector, while coverage may be significantly lower for the social housing sector, where proximity was often a key requirement.

Clearway

48. Figure 11 shows the geographical coverage provided by Clearway. It covered Greater London, the South-East, the Midlands and the North of England.

Other suppliers

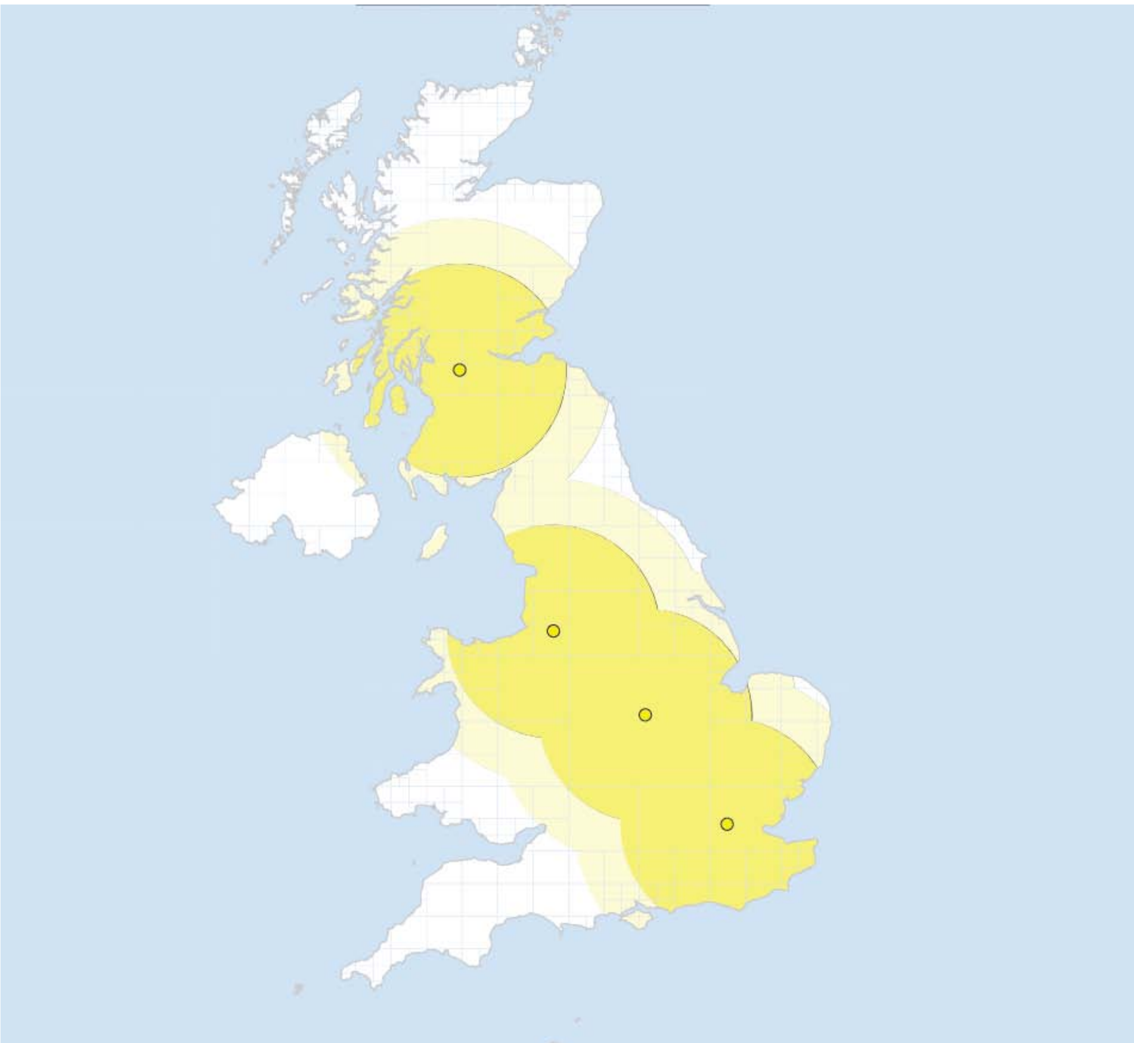
49. Figure 12 shows the geographical coverage provided by Secure Empty Property, SecureSite and Veritas.

50. Figure 13 shows the geographical coverage provided by Loxal, NSE and Protex.

51. Figure 14 shows the geographical coverage provided by GMS, Maltaward and PSS.

FIGURE 10

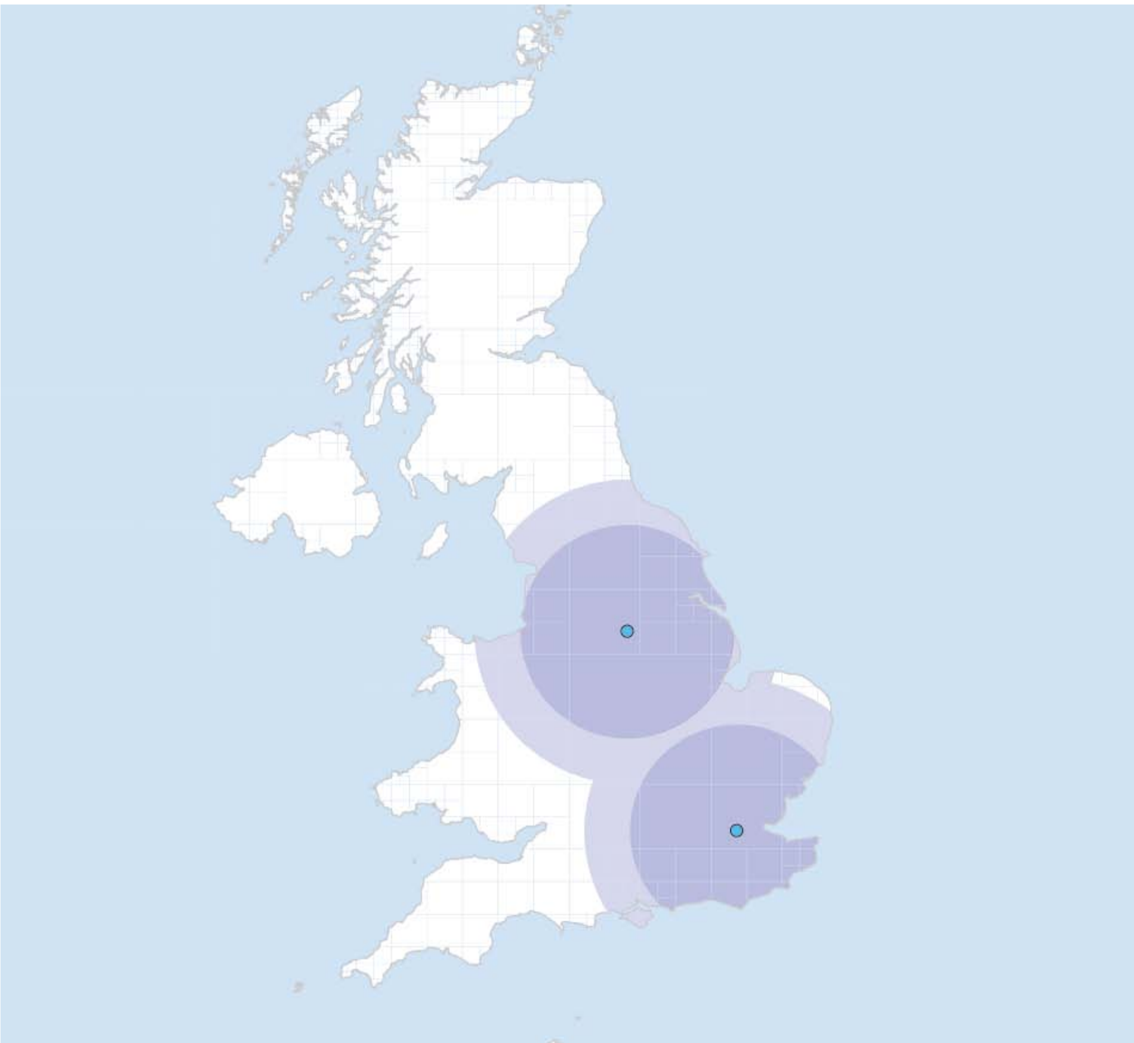
SPS Doorguard coverage assuming 70-mile and 100-mile catchment areas



Source: Locations provided by third parties, CC analysis.

FIGURE 11

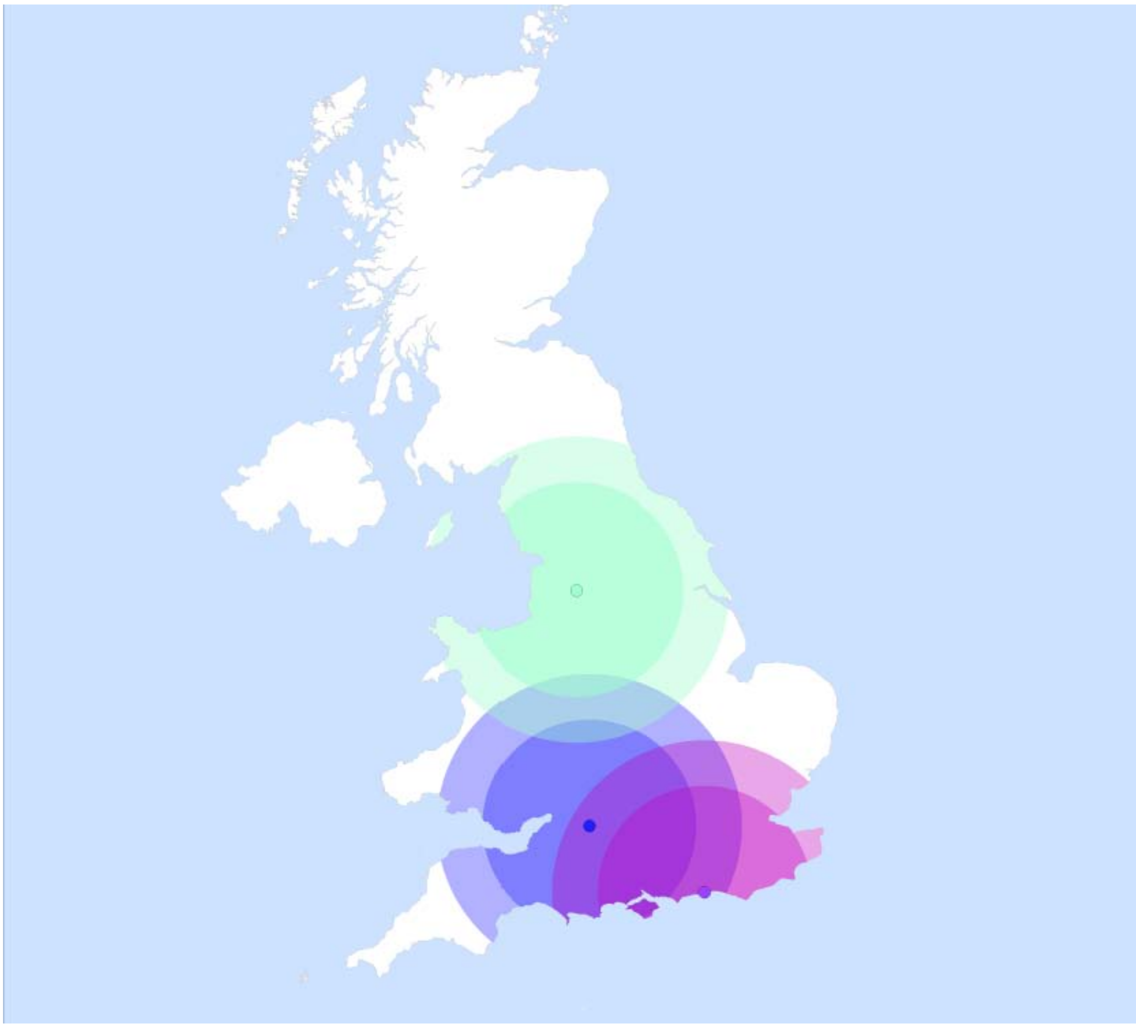
Clearway coverage assuming 70-mile and 100-mile catchment areas



Source: Locations provided by third parties, CC analysis.

FIGURE 12

SecureSite, Secure Empty Property and Veritas coverage assuming 70-mile and 100-mile catchment areas

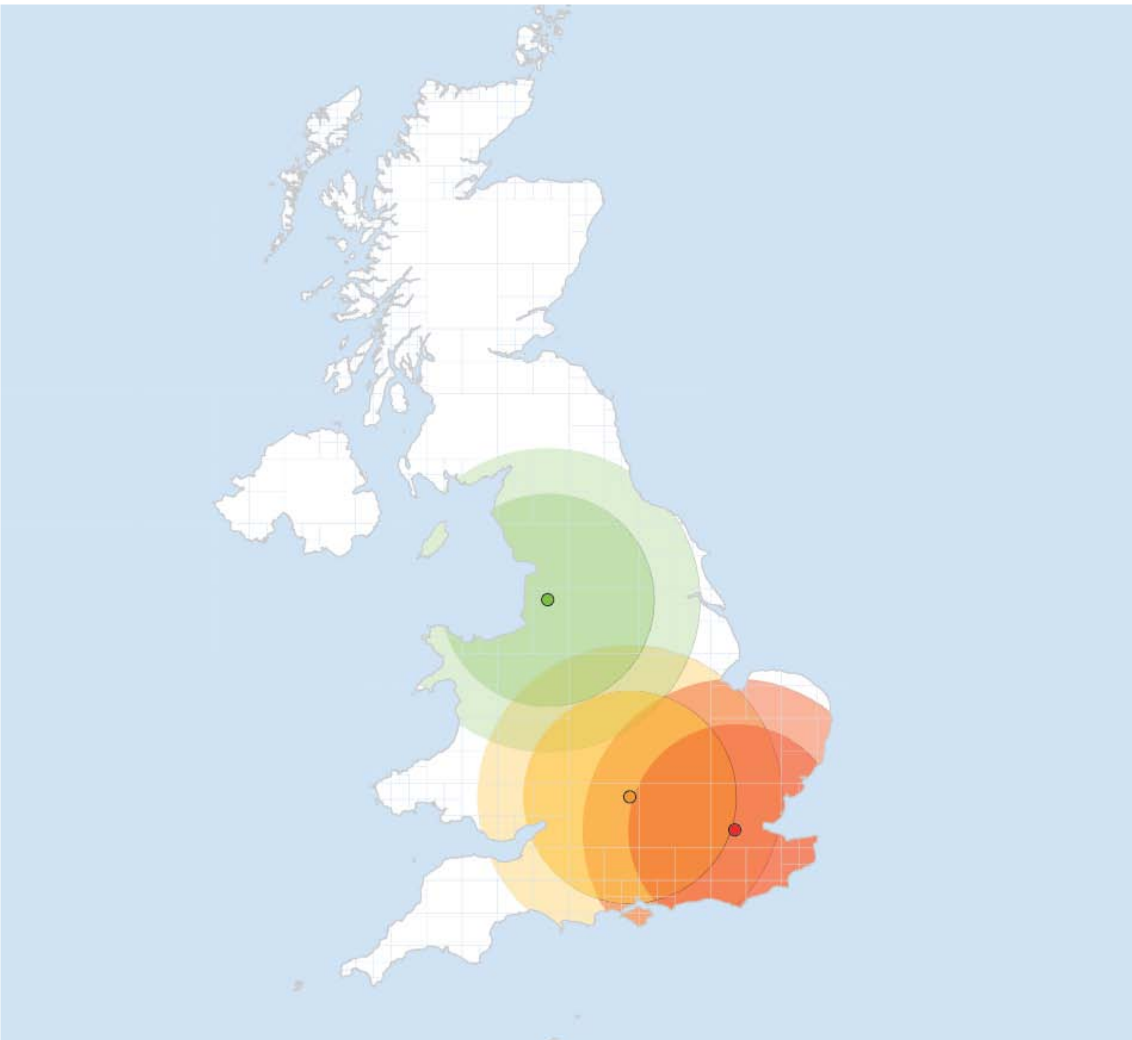


SecureSite depot   Secure Empty Property depot   Veritas depot

Source: Locations provided by third parties, CC analysis.

FIGURE 13

Loxal, NSE and Protex coverage assuming 70-mile and 100-mile catchment areas

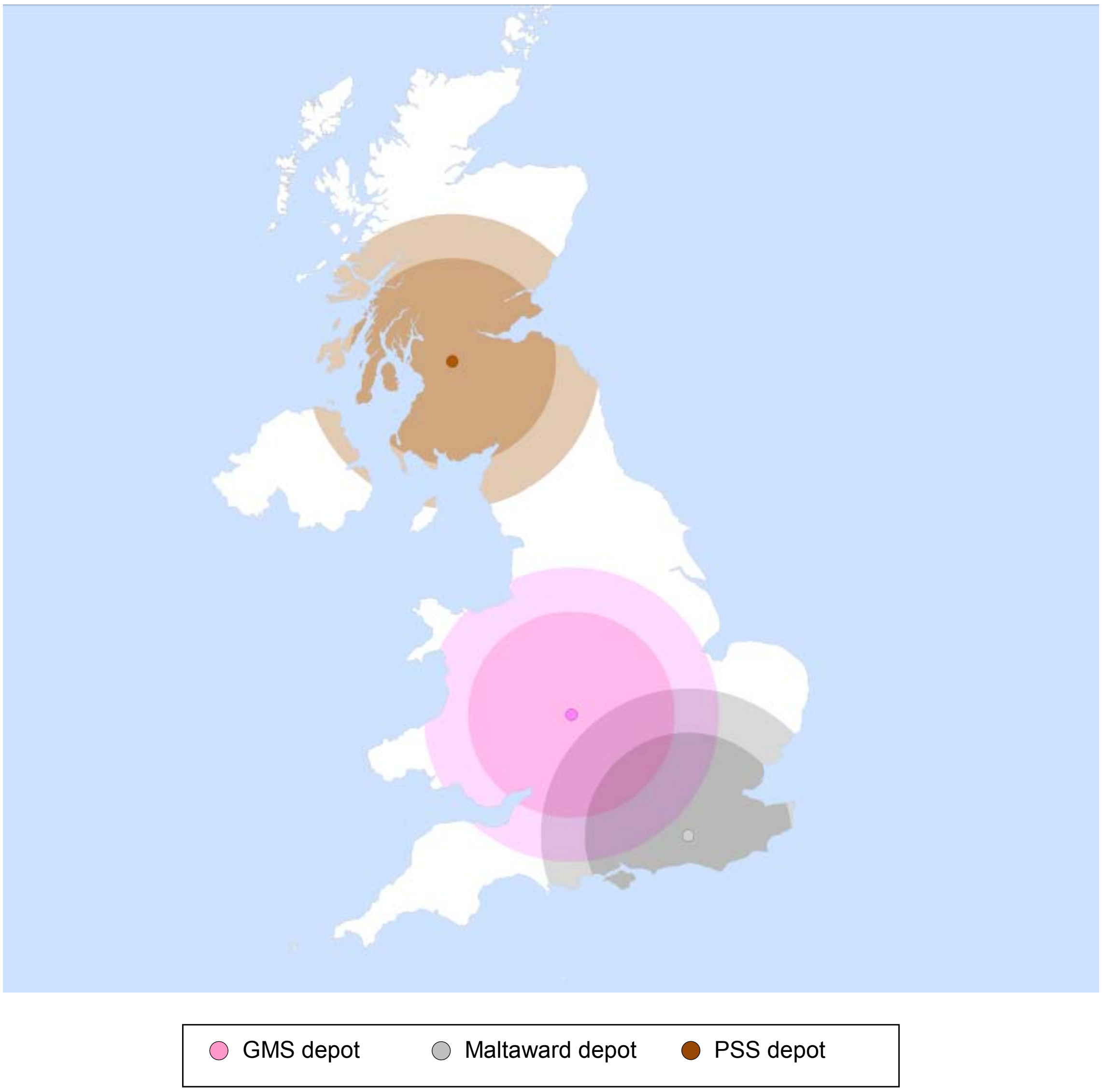


NSE depot   Loxal depot   Protex depot

Source: Locations provided by third parties, CC analysis.

FIGURE 14

GMS, PSS and Maltaward coverage assuming 70-mile and 100-mile catchment areas



Source: Locations provided by third parties, CC analysis.

Main parties' and competitors' overlap

52. On the basis of the catchment area analysis presented above, SPS Doorguard emerged as the only alternative supplier of SSVP with a depot network sufficient to supply across Great Britain, at least in the commercial sector, with Clearway able to supply most of England from its depots, and therefore constituting a credible supplier for some customers with national SSVP requirements.

53. We noted that other suppliers were present in particular areas of Great Britain. In particular, most alternative suppliers we considered operated in Greater London, the South-East or the North-West. Only Clearway and NSE covered the Midlands and the North of England, alongside SPS Doorguard and the main parties. Alongside the main parties, only PSS and SPS Doorguard covered Scotland.

Entry and expansion

1. Our Guidelines set out that in assessing whether entry or expansion may mitigate or prevent an SLC, we will consider whether such entry or expansion would be timely, likely and sufficient. This assessment incorporates an evaluation of potential barriers to entry and expansion (for example, legal and technical advantages for current market players, intrinsic/structural advantages, economies of scale and strategic advantages).[1]

2. We consider in the main report whether entry or expansion would be timely, likely and sufficient to mitigate or prevent an SLC (see Sections 10 and 11). In this appendix, we first set out analysis conducted by the OFT, the submissions put to us by the main parties and the views of their competitors and customers. We then examine the history of entry and expansion in this sector. Finally, we set out our evaluation of some potential barriers to entry and expansion in the supply of SSVP.

The OFT's reference decision

3. The OFT, in its Reference, cited an Information Memorandum prepared for SitexOrbis by [✂] in 2010 which identified the following as barriers to entry: [✂].[2]

4. The OFT noted that the parties had submitted that the Information Memorandum included statements likely to attract interest among potential investors. However, it said that from the information provided it was clear that for new entry there needed to be depots, stock of security equipment, on-site staff and a sales and management team capable of managing a wide range of small-value contracts across multiple UK regions. It noted that it may be relatively easy to satisfy a single contract for one commercial property or a small housing estate on the back of a small team of fitters and to buy in stock as and when required. It said that the parties had supplied certain evidence of this type of entry. However, the OFT said that for entry to be sufficient it would expect the entry to counter the loss of rivalry brought about by the merger.

5. On balance, taking into account the submissions that it received from the parties, the OFT concluded that it was questionable whether entry or expansion of a scale sufficient to replicate the strong mutual constraint between the parties would be timely and likely.[3]

Views of main and third parties

VPS/SitexOrbis

6. The parties told us that barriers to entry and expansion were extremely low in relation to vacant property security services, where a low skills base and little technology was needed. They said that, in particular, a potential vacant property security entrant could obtain, without significant difficulty, the following which were necessary or recommended to run the business:

   (a) lease of depot and transport;

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[1] *The Guidelines,* paragraphs 5.8.1–5.8.13.
[2] OFT Reference Decision, paragraph 75.
[3] ibid, paragraph 85.

(b) appropriately qualified staff;

(c) a valid Certificate of Accreditation under ISO 9000; and

(d) access to a range of security maintenance and cleaning products, including steel and alarms.[4]

7. The parties submitted a list of companies which they said had entered the vacant property security services market. These included Safe Estates (VPS), Camelot, Clearway, SitexOrbis, Loxal Security and Response Facilities Management. The parties told us that these examples showed that new entry into the vacant property security services market was possible, as was expansion from neighbouring markets.

8. They pointed out that perforated steel sheets, which could be cut to size and were the ‘most common option’ for commercial properties which had less standard sized openings, could be purchased virtually off the shelf. They told us that reusable steel screens could be sourced at short notice (six weeks or less) from a number of suppliers, which they listed. They told us that additional research carried out for them [✂] demonstrated that steel panels and doors in particular could be sourced within a six-week period.[5] This meant that existing players could quickly expand if they won new business and that new entrants could take advantage of sales opportunities quickly, as they arose.

9. Further, they said that high-quality and cost-effective battery-operated alarms were available from third parties, for example Videofied by RSI Video Technology. They said that, as this particular alarm was available from a third party not active in the UK vacant property security services market, new entrants or existing suppliers could easily source a battery-operated wireless alarm with or without video.

10. The parties told us that it was not expensive to set up a local depot in the event that a new entrant considered this necessary. VPS/TDR estimated that a business sufficient to service [✂] vacant properties could rent a depot for less than £10,000 a year and could be staffed at a cost of about £50,000 a year.[6]

11. The parties told us that the likelihood of new entry was reinforced as the vacant property security sector had a history of senior staff leaving companies and setting up their own in competition. It cited several examples of this, including the fact that Mr David White, the founder of Loxal Security, was also one of the founders of both Sitex and VPS and that Mr Gideon Israel, currently Chairman of Clearway, was one of the founders of Safe Estates (now VPS).

12. Finally, the parties told us that there were a number of suppliers that operated in adjacent markets that could quickly and easily enter the market for security services for vacant properties if the incentives were to exist, for example if prices rose as a result of the merger. It said that these included large national contractors who already acted as intermediaries, indirectly supplying vacant property security services by subcontracting to the likes of the parties and their competitors. They said that the major contractors had the necessary capital and either had the requisite expertise or could easily acquire it by hiring new, or retraining existing, staff. In particular, the parties noted that existing major intermediaries such as MITIE or Mears could improve on the economics of entry by leveraging their procurement expertise and scale (vans and fuel in particular); utilizing their existing national networks to reduce

[4] Initial submission, paragraph 8.1.
[5] ibid, paragraph 8.7.
[6] VPS/TDR’s estimate did not include a cost for central overheads or any supervisory costs.

costs (annual depot and storage costs); and using their existing management and administrative structure to reduce costs.

Views of existing competitors

Clearway

13. Clearway told us that labour and transport were readily available and that for a start-up with social housing customers, the minimum variety of sizes needed would be 15 to 20 screens and three to five doors. It said that, nowadays, battery power and cellular alarms could be readily acquired. It also said that there were many alarm response centres around the country that could provide monitoring services to a new entrant. Clearway did not suggest that steel screens or doors would be difficult for a new entrant to obtain and that, in any case, perforated steel could be used. It said that the availability of depot sites was, similarly, not a constraint and told us that it used an employee's home as a storage area in one case.

14. Clearway told us that profitability for vacant property security service providers in the social sector was diminishing. It said that the social housing market had become less attractive than it was previously as local authorities now exerted tighter control over the number of weeks that a property was allowed to remain secured. It explained to us that once the steel and alarms had been installed for between 10 and 14 weeks the installation and removal costs would have been recouped so the rental income after this point was highly profitable. It said that the average rental period of steel security for social housing had reduced from the high 30s to under 26 weeks.

15. Clearway told us that the commercial sector was more profitable than the social sector and that it was also expanding. It said that it focused on this segment of the market, but despite this, profitability with pub landlords had been diminishing.

16. Clearway said that it did not compete for some of the larger commercial tenders (at the 100 to 150 vacant property level) for strategic reasons. If it tried servicing such a contract, its other customers would suffer and it did not want to overload its business. However, it said that operationally and financially, the challenges would be surmountable. It would need a different management system within the office, and would need additional staff with the same level of skill. It said that it would also have to open a bigger depot and/or two or three more depots, which was also surmountable.

17. Clearway said that most of its growth had been in the commercial sector, where there were greater opportunities and margins. It could not currently compete for local authority contracts at current prices. It said that social housing contracts were not priced at an economic level and that it could not make money from them. It also told us that there were not any social housing contracts that were big enough and profitable enough to justify opening a new depot. It said that whilst it occasionally tendered for social housing contracts, it had no expectation of winning any tenders.

18. Clearway told us that for it to be worthwhile setting up a local depot for a social housing contract, prices would need to rise from current prices of £[✂]–£[✂] per week to £[✂]–£[✂] per week based on an average 26- to 27-week rental (for an average property with one door and six openings). This suggests that Clearway would require a price rise of almost [✂] per cent in order to compete more aggressively in the social housing market.

SecureSite

19. SecureSite, [✄] per cent of whose business is in the commercial sector, operates from one branch in Worthing with an office in London. It told us that its customers were mostly in the Home Counties and South-East of England, though it also had customers in Scotland, Wales, the North-West and South-West. [✄] It also said that it would expect to win more work if it had a local depot as this would reduce the cost of servicing customers. However, in the context of expansion more generally, it felt that preferred supplier arrangements with insurers who specified VPS and SitexOrbis were difficult to overcome.

SPS Doorguard

20. SPS told us that it did not have large customers in the social housing sector. It said that the social sector was a changing market. It said that some large formal tenders had very time-consuming PQQ and tender processes, and price was always given a large weighting in the tender. SPS also told us that it had not opened any new depots in the last three years and that it could service its entire customer base from its existing depots. [✄]

Loxal

21. Loxal told us that it was established in 2009 to develop niche products which could fill a gap in the vacant property security market. At the moment it was a small company. It told us that as steel security products were modular, and thus suitable for a wide range of window and door sizes, lead times of product were less important though, ultimately, would be critical should no stock be available. It said that it had a one-week lead time from product order to it being available for installation. It told us that it previously subcontracted alarm supply and installation but had recently brought alarm installation in-house. It said that labour and vehicle resources for installation became more critical as churn rates increased and the geographic area of operations widened. It said that technological barriers as regards patents for steel products no longer applied because the patents had expired and that while there were some technology issues with alarms, these could not easily be protected by patents.

22. It said that the opportunity to expand was limited by the very low margins available on some social housing contracts. It told us that incumbents would be in a strong position to retain these as their main costs have been sunk (fully depreciated) and were thus ‘free’ whereas new entrants would have to invest in new screens, doors and alarms.

23. Loxal told us that the commercial market was distinct from the social housing market. It said that social housing contracts were driven by volume and the requirement for operational facilities close to a customer’s location. It explained that it was operationally efficient to travel up to 2 hours to secure a new commercial property if the property was of a reasonable size and the period that it was to remain vacant was likely to be eight weeks or more.

24. Loxal told us that it intended to enter the social housing market in two or three years’ time.

North Star Estates

25. North Star told us that it had £500,000 of sales in the SSVP property market. It said that it worked only for commercial clients. It had one depot and was considering opening a second in [✂].

26. It told us that logistics was a constraint due to the cost of fuel and that 80 per cent of its clients were within 60 miles of the current depot.

Maltaward

27. Maltaward told us that steel and alarms for void property were a minor part of its business and it currently only supplied them as part of a wider civil engineering contract. It told us that almost all its business was in the commercial sector with only a tiny amount in social housing. It would consider opening another depot but did not have current plans to do so. It suggested that this might be worth doing to handle around £500,000 of business.

View of potential entrants from adjacent business sectors

28. G4S said that as of 2008 it used [✂] for its vacant property security services. It had tried to get a partnership arrangement with both [✂] and [✂], but was unable to due to [✂], and [✂];[7] this forced G4S to seek an alternative. It chose [✂] because it believed it was the third largest supplier in the market.[8] It said that VPS, SitexOrbis, Clearway and SPS were the only national providers.[9]

29. It told us that it was currently exploring self-supply of SSVP after being approached by financial institutions, with a focus on administrators and bankruptcy stock. It was reviewing the commercial market and not the social housing market as the social housing market tended to opt for the cheapest provider. It said that the commercial market involved high mark-up, high-margin solutions.[10]

30. [✂][11] G4S said that a price rise may increase the chance of entry.[12]

31. It said that a small company might be able to provide void property security at a local level but would find it difficult at a national level.[13]

MITIE

32. MITIE launched a vacant property security service for commercial premises in April 2012. It said that this business was established due to the demands of its existing customers. At present it subcontracted steel installations to [✂] and SPS [✂]. It told us that it was about to take some alarm work away [✂] and undertake this in-house. It said that its vacant property security business was at an embryonic stage with detailed business planning still to be conducted. It did not have any plans to supply its own steel screens/doors for the next 12 to 18 months. It could potentially bring

[7] [✂]
[8] G4S hearing summary, 2 May 2012 & 11 May 2012, paragraph 7.
[9] G4S hearing summary, 2 May 2012 & 11 May 2012, paragraph 8.
[10] G4S hearing summary, 2 May 2012 & 11 May 2012, paragraph 9.
[11] G4S hearing summary, 2 May 2012 & 11 May 2012, paragraph 11.
[12] G4S hearing summary, 2 May 2012 & 11 May 2012, paragraph 14.
[13] G4S hearing summary, 2 May 2012 & 11 May 2012, paragraph 10.

steel screens/doors in-house if it had a supportive social housing contract, requiring specific 'steeling' teams, but this was not its current focus.

33. MITIE said that social housing margins were very low. It would have no issues financing the purchase of steel screens/doors, provided there was a business case to do so. It said that it might take on social housing contracts despite the small margins, because it would broaden MITIE's service offering. It might ultimately be forced to enter due to the MITIE First programme, which emphasized using internal offerings first before outsourcing. This would give the new Void Secure business access to all work currently subcontracted to [✂] and SPS. It thought the merger might result in some unhappy customers that sought new suppliers and a likelihood of a dip in service levels in the short term.

Securitas

34. Securitas told us that it had made a decision around two years ago not to service social housing customers but the decision was not 'set in stone'. The reason given for this was that it did not necessarily understand the sector and business risks involved.

35. It told us that it had one key relationship, with [✂].

36. Securitas told us that it did a lot of work for property management companies. It gave an example of its work for [a large property manager]. Securitas did about £[✂] of business for [✂], of which about £[✂] related to void security. Securitas provided mobile inspections and an alarm response service, whilst, in most cases where it was required, [✂] provided steel/physical security. In a few cases, on the basis of a local relationship an individual Securitas manager might have, the company would work with [✂].

37. Securitas told us that it was not interested in 'in-sourcing' steel and alarms as its Securitas Mobile division was growing rapidly. It had just over 5 per cent of the mobile patrols market in the UK and did not wish to diversify its core offering.

38. Securitas said that entry at a local level was relatively straightforward. To deliver security services, at a regional or national level, suppliers would need a larger foot-print to avoid a costly service and/or slow response service. It was unaware of any potential new entrants.

39. When asked to compare SPS and VPS/SitexOrbis, Securitas felt that both companies were very similar and that they were the only companies which could provide national coverage.

40. It said that margins were very slim for void property work.

Morrison

41. Morrison told us that it subcontracted physical security services and did not plan to move into this sector.

VSG

42. VSG is a security business which is part of Compass Group. It told us that its annual revenue from Alarms & Monitoring was £3 million.

43. It said that void property inspections were a growing revenue stream. It would not go into repair/maintenance/boarding up as it saw itself as a specialist security provider.

Views of customers

Social housing

Incommunities

44. Incommunities is a housing association which provides two-thirds of all social housing within the Bradford district. It told us that it was reviewing its policy for vacant housing security and considering more in-sourcing. It said that it could install steel screens itself and thought it might be able buy the screens on existing properties from the incumbent suppliers at a reduced rate.

45. Incommunities told us that [✄] had in-sourced alarms and had been able to purchase them, but this was not something it had looked into itself.

46. It told us that it would ask a contractor to set up a depot in the local area but that it would not expect it to have one when it was tendering. Availability of units to rent was not an issue.

47. Incommunities said that the same people tended to reappear with different companies. In a merger the directors of the acquired company may well set up a competitor.

Fusion 21

48. Fusion 21 is a social enterprise and was formed in 2002 by seven social housing organizations in north-west England to act on their behalf and reduce the cost of purchasing goods and services. It told us that VPS and SitexOrbis were the only two service providers on the Fusion 21 void security framework agreement, which commenced on 1 April 2011 and extended for four years.

49. Fusion 21 said that the merger would not be in the interests of its clients. It relied on rivalry between suppliers to ensure competitive prices for its framework agreements and benchmarking bidders. With the merger there might be no suitable alternatives. It said that live-in guardians or manned patrols were not viable alternatives to steel for social landlords. Clients had a preference for service providers with local depots because they supported local employment.

50. Fusion 21 said that its void security framework had three years remaining and that rates were locked in for that time. The merger might provide opportunities for new entrants in the long term, but would affect its clients now because mini-competitions could not be conducted. If prices rose post-merger, Fusion 21's clients would have to accept price rises due to less competition in mini-competitions.

Liverpool City Council

51. Liverpool City Council told us that it had tendered two large contracts for a total of [✄] properties. [✄] It said that only VPS and SitexOrbis were able to secure that many properties (ie more than several thousand). In particular, it would often need six to eight properties secured within a matter of hours on relatively short notice (two to three days). It told us that a few smaller providers had tendered but they were not able to meet the specifications.

Ealing Council

52. Ealing Council told us that it did not consider alternatives to steel. It would accept a tender from a company which did not have a local depot but it would need assurances that a local depot would be set up or that the response time would meet the tender requirements.

Nottingham City Homes

53. Nottingham City Homes (NCH) told us that [✂] VPS had been its supplier.[14] A [✂] tender was then won by [✂] which resulted [✂]. In [✂] a tender was won by [✂]. It told us that it was currently tendering again via Efficiency East Midlands on a framework basis.

54. NCH told us that in 2006 four companies had tendered ([✂]). In 2009, three companies had tendered ([✂]). [✂] NCH said that in both [✂].

55. NCH told us that, if prices were to rise significantly, it would consider all its options including self-supply of steel security but the economics of bringing this in-house suggested that this might be a 'non-starter'. It was probably highly likely that prices would rise following a merger of VPS and SitexOrbis.

Leicester City Council

56. Leicester City Council told us that it had been fitting its own screens for well over 15 years and that the decision to in-source had been driven by cost. It said that in-sourcing made sense for a customer once demand was at 20 to 30 properties a week. Specialist vehicles were not required and a transit van would be suitable.

Commercial

AXA Insurance

57. AXA told us that [✂] was its preferred supplier for its clients and viewed it as a risk management service. It wanted to work with a provider capable of delivering services on a national basis and it should provide services itself rather than subcontract. It told us that there were no barriers to switching away from [✂] and that it was in discussions with [✂] and [✂]. It said that the market for commercial business was competitive and, were prices to increase post-merger, new entry might occur from alarm companies or guarding.

Grant Thornton

58. Grant Thornton said that [✂], SecureSite UK and GMS[15] were its current preferred suppliers following last year's supplier review. Prior to that review, [✂], MITIE and GMS were the preferred suppliers.

59. Grant Thornton said that [✂] had previously performed well as far away as Scotland, and that [✂] had told it that it would go anywhere nationwide. Grant Thornton had had concerns with SecureSite's potential response times given its lack of depots but

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[14] [✂] told us that it had supplied NCH for some time before this date. This was before the NCH representative began working at NCH.

[15] GMS is a Stoke-based security services business.

SecureSite had pointed out that it had provided a good nationwide service for Little Chef.

60. Grant Thornton told us that it trusted its local staff to look after void properties, so theoretically, if product prices increased it would be left to local Grant Thornton staff to negotiate and this would not be done centrally.

61. Grant Thornton said that whilst the acquisition would not have a huge impact on its business, it might have to seek a new supplier on its panel, as a consequence of its previous issues with [✂]. The alternative large-sized suppliers were SPS Doorguard and SecuriGroup.

Enterprise Inns

62. Enterprise Inns has about 6,500 pubs in England and Wales. It told us that it expected its supplier to be able to provide a service nationally and to be able to respond at short notice.

Spirit

63. Spirit manages over 1,300 properties, which are mostly pubs. It said that all its properties which were deemed to require security received the same level of security. This included installation of steel doors and screens, alarms (intruder and fire) and cleaning and clearing. Insurance requirements stipulated that some level of security needed to be met in certain cases.

64. It said that four suppliers submitted bids in its recent tender, including [✂] and [✂]. [✂] was the incumbent provider.

65. Spirit told us that it required pubs to be secured within 24 hours. It was interested in the depot network of potential suppliers and it required a national network of depots because its properties were nationwide and response time was very important. The extent of a supplier's depot network was not in itself a critical factor but added to the credibility of the supplier's claims on response times. Spirit said that it would be unusual to supply national services from two depots.

[A major grocery retailer]

66. [A major grocery retailer] said that it acquired many different types of properties including former pubs and office blocks for its smaller grocery store portfolio, and general larger retail units for its larger stores.

67. It said that it needed a national supplier and not regional suppliers. Response times to reported trespassing was the most important factor; a security supplier needed to provide a same-day service and have a nationwide presence.

History of entry/expansion

68. We set out below some examples of recent entry and expansion by companies offering void property security. The companies in *(a)* to *(c)* below offer steel screens/ doors and alarms; whereas the companies in *(d)* to *(f)* either subcontract steel screens/doors and alarms or, in the case of Camelot, secure void property using a non-steel screens/doors solution:

(a) Clearway entered the vacant property security market in 2004 and has since grown its revenues from this business to £[✂] million (for year ended August 2011), split £[✂] million commercial and £[✂] million of social housing revenues. The group also provides man guarding and other vacant property services such as clean and clear. Clearway told us that it serviced its customers from two depots, one in Erith and one in Sheffield. The current Chairman of Clearway told us that he had previously started two businesses, one of which he had sold to Orbis in 1997 and the other to VPS (in 2004).

(b) [✂][16]

(c) Loxal Security, formed in 2009 by the founder of both Sitex and VPS, said that it offered a range of void property and access control services. It told us that it had focused on product development in access control rather than the void security sector. The company currently has two directors and two employees.

(d) MITIE launched a vacant property security service for commercial premises in April 2012. It said that it did not have any plans to supply its own steel screens/doors for the next 12 to 18 months. This meant that it would continue to sub-contract these services. It would be installing wireless alarm systems. It had no direct plans to in-source but if the volume and the revenue were available then it would consider it.

(e) G4S currently has a partnership with [✂] for void property security services. It told us that it was currently conducting a review which would consider in-sourcing SSVP which it currently subcontracted.[17] [✂]

(f) Secure Empty Property, a recent start-up, said that it was interested in supplying some social housing customers, mainly in North-West England, but had no plans to target [✂] in the immediate future, [✂]. It said some [✂] customers were willing to pay more for a good service.

(g) The parties gave us the example of Camelot, which is a Dutch-based firm which entered the vacant property services market in the UK in 2002. It does not currently supply SSVP. Its main offering is live-in guardians who will occupy a property for a fixed period of time whilst it is empty. It told us that it had £[✂] of revenue in the UK in 2011 and that roughly 90 per cent of this revenue came from the commercial market. The cost of providing its services ranged from [✂].[18] Camelot said that it had won some business to protect vacant social homes—this was for protecting properties which were part of demolition and/or refurbishment programmes ('de-cants').

Barriers to entry and expansion

Introduction

69. The purchasing requirements of buyers in the social housing and commercial sectors are very similar as regards 'products'. For premises deemed to require this level of protection, both need to:

[16] VPS/TDR said that SitexOrbis had attempted to enter the commercial sector before 2008 and had been unsuccessful.
[17] G4S hearing summary, 2 May 2012 & 11 May 2012, paragraph 10.
[18] The 'rent' paid by guardians may exceed the fees for protection.

(a) hire screens, steel doors and wireless alarms (which we refer to in this appendix collectively as 'hire stock'); and

(b) have them delivered, installed and eventually removed by a suitably trained and equipped labour force.

70. However, as we explain below, the service requirements of the social housing and commercial sectors differ.

71. In this section, we first consider customers' product requirements: the extent to which the cost and availability of hire stock items and the cost and availability of suitably trained and equipped labour to install and remove these may act as barriers to entry and expansion.

72. We next examine whether certain 'reputational' or regulatory requirements may act as barriers to entry and expansion. These include both the need for accreditation by approval/regulatory bodies such as the British Standards Institution and the International Organization for Standardization and the ability to demonstrate a 'track record' in the vacant property security sector.

73. We then consider the extent to which the availability of depot facilities may act as a barrier to bidding for work.

The cost and availability of hire stock, labour and transport

Hire stock

74. Hire stock may comprise a significant proportion of the total capital expenditure of SSVP businesses. [✄] However, as we set out below, the unit costs of these items do not appear particularly high in absolute terms.

Screens

75. The parties told us that steel screens were readily available, could be purchased for £40 a screen and could be sourced at less than six weeks' notice from a number of suppliers. The parties also told us that sheet steel was an acceptable substitute and was available at shorter notice at a cost of £[✄] a sheet. Consistent with the parties' views, Clearway, Loxal and Incommunities (a social housing customer) all told us that sourcing the screens necessary to start a business was straightforward. MITIE told us that it did not think it would have any difficulties financing the purchase of steel and screens.

76. We do not consider that the cost of screens acts as a barrier to entry or expansion. We have not seen any evidence at this stage that it is difficult to procure screens in sufficient quantities over a reasonable timescale and we have seen evidence which suggests that perforated steel sheeting may be a supply-side substitute for screens.

77. Loxal told us that new entrants to the market had to invest in new equipment and could not benefit from 'spent' depreciation. Consistent with this, SitexOrbis told us that steel screens were depreciated over [✄].

Steel doors

78. Consistent with the views of the parties, Clearway told us that steel doors were straightforward to source. It said that the sourcing lead time was two months.

79. The cost of new steel doors does not appear high in absolute terms: the forecast annual cost of procuring [✂]. We have not seen any evidence that it is difficult to procure doors in sufficient quantities over a reasonable timescale to enter or expand in the market.

Wireless alarms

80. We considered barriers to entry both in terms of the ease and cost of acquiring wireless alarms themselves and in terms of acquiring the facility to monitor and respond to them.

81. Consistent with the views of the parties,[19] Clearway told us that battery power and cellular alarms could be readily acquired. RSI Video Technologies, a manufacturer of the Videofied wireless alarm system, told us that it supplied alarm installers throughout the UK.

82. Further, the cost of alarms does not appear to be particularly high in absolute terms. The forecast annual expenditure on alarms for [✂]. We were told that whereas, previously, IP rights to the relevant technology restricted the availability of wireless alarms, this was no longer the case. We do not consider that the availability or cost of wireless alarms is a barrier to entry or expansion in the market.

83. We note that some companies outsource alarm response management requirements to third parties. For example, Loxal said that it had previously subcontracted the installation, the monitoring and the key holding and that product availability was approximately one week from order. We also note that VPS outsources its alarm response function.

84. We consider that it would not be necessary for a provider of vacant property security services to establish its own alarm response centre and that this does not represent a barrier to entry or expansion in the market.

Labour and transport

85. We considered whether the availability of suitable staff or transport would be liable to act as a barrier to entry or expansion in the market. [✂]

86. Consistent with the main parties' submission,[20] Clearway told us that 'labour and transport resources are readily available'. It also told us that recruiting and training staff took about one month. Loxal told us that SSVP was a semi-skilled trade. We have seen no evidence that recruiting and training staff or acquiring transport is likely to act as a barrier to entry or expansion in this market.

87. SitexOrbis budgets show that staff and transport costs represent around [✂] per cent of total costs at the depot level. We consider that optimizing staff and transport costs through shorter average journey times to reduce fuel costs and maximize labour output (more jobs can be completed if journey times are shorter) would be critical to making a depot as efficient and profitable as possible.

[19] Initial submission, paragraphs 7.3–7.11.
[20] Initial submission, section 8.

Regulatory/reputational factors

88. We distinguish here between two types of potential barrier: first, accreditations that may, in practice, be essential if a company is to win business in this sector; and second, the importance of a company's 'track record' of delivering such services in the past. We discuss these in turn.

Accreditations

89. We were told that a company offering wireless alarms would need to demonstrate that it could provide monitoring and response services in order to support them. We were told that BSI had developed a standard (BS5979)[21] which applied to alarm monitoring centres (ARCs) and that conformity with this standard was, in practice, a requirement of winning business in this area.

90. We noted that VPS did not require the BS5979 accreditation as it had outsourced its ARC function to a third party which had the accreditation. [✂] We considered that because a company entering this market sector would not necessarily need to achieve this accreditation itself, since it could, similarly, subcontract its alarm monitoring functions to a third party provider, achieving approval under BS5979 would not necessarily act as a barrier to entry or expansion in the market.

91. The ISO 9001 Quality Management Standard accreditation appears relatively inexpensive to acquire, at a cost of around £1,500 + VAT.[22] We considered that this was a commonly held accreditation among service businesses, particularly those dealing with local government, and we did not consider that this was a barrier to entry.

Track record

92. We next consider purely 'reputational' barriers: whether a company entering or expanding into this market would need to demonstrate that it had a 'track record' in vacant property security services. We note examples of companies expanding into providing vacant property security services from adjacent sectors. We note that there are several examples of individuals with experience in SSVP businesses setting up or becoming part of new companies entering the market. We note also the views of customers such as Grant Thornton which referred to the importance of reliability of potential providers and indicated that prior experience of SSVP in relation to insolvency was a prerequisite for appointment. SecureSite said that getting past VPS/SitexOrbis being preferred suppliers for a national insurance customer was a problem (although AXA told us that there were no barriers to switching away and that it was in discussions with two other providers).

93. On balance, we found that reputational barriers to entry were not significant, certainly no more so than in any other business-to-business market.

94. Some social housing customers, for example Ealing Council, told us that they required three years of accounts in order to tender. This could act as a barrier to newly-formed businesses winning some social housing contracts.

95. We consider the issue of whether customer inertia or conservatism may be a barrier to entry in the main report (see paragraphs 10.99 and 11.116).

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[21] www.iso9000.co.uk/standard_02.html.
[22] Source: The British Assessment Bureau website.

The need for a local depot prior to bidding for business

96. Loxal told us that public sector clients would require local depots to be established prior to including suppliers on approved contractors lists. However, no social housing customers that we spoke to told us that having a depot was a pre-condition for tendering. Most social housing customers told us that they would just need an assurance that a local depot would be set up if a contract was won. We therefore thought that although social housing customers would be likely to require that a supplier had a depot close to its properties, it would be sufficient for it to acquire one once it had won the business.

97. This is in line with evidence provided by VPS, which showed that a number of depots had been opened only after winning a new social housing contract.

98. We consider the issue of any economies of scale, density and scope which may arise from having a network of depots in the main report (see paragraphs 10.122 to 10.132 and 11.121 to 11.131).

Closeness of competition

1. VPS and SitexOrbis were the two largest specialist providers of vacant property security services in the UK, providing very similar products and services. This appendix assesses the extent to which each is the closest competitor to the other, and how close a substitute other competitors are. The answer may vary for different types of customer, according to their sector, size, and geographical or product requirements.

2. The sector was characterized by services and prices that are tailored to individual customers. Therefore services provided could be characterized as bidding markets, although price was not the only dimension of competition: while price was often a key determinant, service quality may have been as important or more important for some customers. This appendix considers in detail two arguments made by the parties about the nature of competition in this market (see paragraphs 3 to 10). It then reports detailed analysis of several sources of evidence (all of which are summarized in the appropriate sections of the main report):

   - First, we assessed data on tenders to investigate whether SitexOrbis was VPS's main competitor in tenders, and vice versa (paragraphs 23 to 39). We have also assessed available information on switching between suppliers by quote and order customers.

   - Second, we evaluated information from customers. This included quantitative analysis of the responses to our customer survey (paragraphs 43 to 63), and qualitative responses from hearings with customers (paragraphs 64 to 73).

Arguments made by VPS about the nature of competition

3. In this section we consider two arguments made by the merging parties that a merger between two large suppliers, with few other active suppliers, would not lead to an SLC. The first was that the existence of 'marginal' customers prevents companies from raising prices to customers who experience less effective competition post-merger. The second was that in some types of bidding market, 'two is enough'—in other words, there did not need to be many active suppliers because any second supplier would constrain the price of the first.

Protection from marginal customers

4. In economics, it is common to divide customers into two groups. One group, known as 'marginal customers', consists of customers who are relatively price sensitive who, in response to a small price rise, would be likely to reduce their purchases or change supplier. This group is likely to include customers who have very good substitutes available for their existing purchases. The other group, known as 'infra-marginal customers', consists of customers who would not change their purchasing habits in response to a small price increase.

5. The parties submitted to us that our focus needed to be on marginal customers, not infra-marginal ones:

> That is to say that, in addition to focusing on alternative suppliers (or new entrants) and alternative products, the focus in this case should be

on those customers who currently purchase the Parties' products but who would either stop doing so or who would buy less if post-merger prices were to rise.[1]

6. We considered whether this argument applied to this case. Our concern was that if there are group(s) of customers for whom the parties are the two most suitable suppliers, and other suppliers (and suppliers of alternative products) are more distant competitors, then it would be profitable for the parties to raise prices to these infra-marginal customers post-merger. If prices were uniform or if the parties were unable to identify these infra-marginal customers, then the merged firm's gain from raising prices to infra-marginal customers (who would continue buying from the merged firm) would be set against lost sales to marginal customers (who would stop buying from the merged firm). If there were enough marginal customers, the merged firm would be deterred from raising prices to infra-marginal customers (as VPS argued).

7. The sector is characterized by individually negotiated services and pricing; [✂] the merging parties told us that they did not have [✂][2] and there was [✂] of the same products to different customers.[3] Some sales were made under fixed price schedules (such as sales called off under framework agreements) but even these prices had been individually negotiated.[4] Therefore if infra-marginal customers could be identified then the existence of marginal customers would not protect infra-marginal customers from price rises. Or, more generally, the better the parties are at identifying infra-marginal customers, the less protection marginal customers give; and so the proportion of customers who are marginal would have to be higher in order to deter a price rise.

8. CRA, on behalf of VPS, submitted that this market did not have the characteristics that were necessary for price discrimination. CRA said that price discrimination was only possible when:

(a) there was an identifiable group of non-marginal customers who could be price discriminated against; and

(b) such discrimination would not be undermined by competing suppliers (including entrants) undercutting the higher prices.

9. We believed that suppliers in this sector should in general be able to distinguish between infra-marginal customers and marginal customers. For example, suppliers with a local presence would be aware of the risk profile of different streets and neighbourhoods and will be able to identify which streets/neighbourhoods contain properties which, if vacant, may be particularly at risk of unwanted attention and so require SSVP security. Similarly, many customers of SSVP suppliers appeared to be repeat purchasers and/or had been with their supplier for some time. We expected that SSVP suppliers would have a good understanding of these repeat customers' specific needs and their appetite for risk. There may also be specific circumstances: for example, customers with properties for demolition may have a wider range of security product options,[5] but we expected suppliers to know when they were competing to supply SSVP in relation to properties earmarked for demolition. Similarly, we expected that a customer who is willing to substitute to wooden boarding might ask the parties about this as an option. In general, since prices are

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[1] Initial submission, paragraph 10.3.
[2] We note that SitexOrbis [✂].
[3] See main report, paragraphs 9.14 - 9.18.
[4] Customers 'calling off' framework agreements may use the fixed prices negotiated by the framework or conduct a 'mini-tender' between the suppliers listed under the relevant framework before agreeing terms with the appointed supplier.
[5] See Appendix G, paragraph 47.

individually negotiated, we expected customers to bring up valid alternatives in order to try to negotiate lower prices, and we expected suppliers to assess the credibility of these alternatives in making their offers. We believed that suppliers were typically also aware, if only anecdotally, of which competitors were active in the local area.

10. Our assessment in the main report described in detail our views on the parties' ability to price discriminate against certain customers post-merger (ie to charge them a higher price even though the underlying cost of provision is the same); and considered whether this would be undermined by either existing competitors or entrants undercutting the higher prices. We noted that price discrimination already appears to take place: for instance, we understood that it is common practice for commercial customers to pay a higher price than social housing customers for the same service, and that within the commercial sector [✂].[6] The variation in prices charged was illustrated in the main report.[7] Overall, we found that this was not a sector where the presence of some price-sensitive customers would protect infra-marginal customers from post-merger price rises.

Bidding markets

11. The parties have described the markets in which they operate as 'bidding markets'. For example, tenders may involve a supplier submitting a price list and quality of service assurances without knowing what competitors are offering. The quote and order sales process could also be interpreted as a supplier submitting a bid without knowing what other suppliers have already bid or what they might subsequently bid. VPS appeared to agree with this interpretation.

12. It is well-established that in bidding markets, under most circumstances, the number of bidders is important in determining price and that an extra bidder generally has considerable value. As Professor Paul Klemperer points out,[8] there is no clear answer to the question of how many bidders are enough to make a market competitive. However, experience indicates that two bidders are often not enough to minimize selling price. As Klemperer puts it, it is typically worthwhile for an auctioneer 'to devote more resources to expanding the market than to collecting the information and performing the calculations required to figure out the best mechanism'.[9] Hence, additional bidders typically provide value to the auctioneer.

13. Also relevant is the identity of individual bidders and the degree of asymmetry between them. The economics literature shows that bidding strategies and tender outcomes are not independent of the value that the tender has for each bidder, which depends on bidders' cost structures.[10] Some bidders can also enjoy reputational advantages and incumbency advantages (eg superior information) that may soften the competitive constraints imposed by the presence of other bidders or even pre-empt their participation in the tender.[11]

14. VPS/TDR said that where companies did not know their competitor's bid and had no opportunity to vary their own bid, two competitors were sufficient for competition and so long as there were at least two companies post-merger, competition was not affected by an increase in concentration.

[6] SitexOrbis and Clearway suggested to us that the [✂] were due to competition between existing SSVP suppliers; whereas VPS suggested to us that other factors [✂] had helped drive prices lower. [✂]
[7] See Figure 2 (paragraph 9.14) of the main report and accompanying commentary.
[8] Klemperer (2005): *Bidding Markets*, Competition Commission, p18.
[9] Klemperer (2000): 'Auction Theory: A Guide to the Literature' in *The Economic Theory of Auctions*, Edward Elgar.
[10] Ibid. See also Bulow, Huang and Klemperer (1999): 'Toeholds and Takeovers', *Journal of Political Economy*, 107, 427–454.
[11] Ibid. See also Milgrom and Weber (1982): 'The Value of Information in a Sealed-Bid Auction', *Journal of Mathematical Economics*, 10, 105–114.

15. We agree that under certain 'ideal' conditions, two firms may provide enough competition to give rise to a fully competitive outcome. In a one-off sealed-bid system in which bidders have poor knowledge of their competitors' cost structures, firms will bid their most competitive price in order to maximize the probability of winning and making a small profit.

16. Professor Klemperer[12] has identified a number of criteria he considers to be necessary to satisfy the 'typical definition of an ideal "bidding market"'. These criteria include:

(a) competition is 'winner takes all' so that each supplier wins all or none of the order;

(b) competition is 'lumpy' so that each contest is large relative to a supplier's total sales in a period so that there is an element of 'bet your company' in any contest;

(c) competition begins afresh for each contract and for each customer such that when contests are repeated there is no lock in by which the outcome of one contest determines another;

(d) entry of new suppliers into the market is easy; and

(e) a 'bidding system' or 'bidding process' is involved.

17. Professor Klemperer suggested that the 'two is enough' idea may apply in markets where these five conditions hold, and where, in addition:[13]

- marginal costs are constant;
- there are identical, or very similar, competitors; and
- there are no capacity constraints.

However, Professor Klemperer considered that, once any of the extreme assumptions of an 'idealized bidding market' are relaxed, 'we are quickly back into the familiar world of problems of dominance and unilateral and coordinated effects'.

18. Professor Klemperer also remarked that:[14]

> Statements such as 'in bidding markets … competition can be as vigorous with two firms as with three or more'… depend on the two firms being genuinely identical and genuinely competing… if one firm is advantaged, eg by lower costs or reputation, it has market power; if firms are differentiated, both have market power. …The claim that one firm is enough for an optimal outcome is as highly sensitive as usual to (generally implausible) assumptions of speedy, costless entry.

VPS said that for national SSVP customers, the conditions were sufficiently closely met for competition to be effective with a very limited number of players in the market. It said that:

[12] Klemperer (2005): *Bidding Markets*, ibid.
[13] VPS argued that these were not an entirely accurate representation of page 7 of Klemperer but we think they are clear from the quote in paragraph 18 of this appendix.
[14] Klemperer (2005): *Bidding Markets*, p10.

(a) national customers offered all of their business in most cases, or at a minimum offer an attractive defined bundle of work;

(b) competition was lumpy and for relatively large chunks of work;

(c) there were no contractual lock-ins and competition began afresh;

(d) entry was easy and there were no significant entry costs to bidding;

(e) marginal costs were constant;

(f) there were no significant capacity constraints; and

(g) the services provided were sufficiently homogeneous that firms with national coverage capabilities would be close substitutes.

19. We did not agree that all of these conditions were met in the industry in general or in the national commercial sector. In particular, as we discuss below, competitors were small-scale compared with the merging parties and appeared to lack the economies of scale, scope and density which the merged entity would enjoy. They also employed different cost structures to the merging parties (as we discussed in more detail in paragraphs 11.47 to 11.58 in the main report). Therefore we did not agree that competitors are very similar or that marginal costs are constant.

20. With regards to some of the specific points made by the parties, we have seen several examples of customers multi-sourcing using an approved supplier list and we are told that there are rarely, if ever, guarantees of receiving a minimum amount of work. There was no element of 'bet your company' for even the largest commercial customer (at least for the merging parties, and this is reinforced by the lack of guarantees of volume of work). There did appear to be some inertia and customers will have experience of their existing supplier, which suggested that competition did not entirely begin afresh: we have been told that incumbency can provide an advantage—or disadvantage—in bidding for a contract, according to the customer's perception of the quality of service provided by the incumbent, and so this may cause asymmetry between bidders.[15] And we found that entry of new suppliers into the market was not easy: even if bidding was relatively cheap, new suppliers would not initially be able to replicate the main parties' economies of scale arising from their depot networks and the cost of a depot network required to serve national customers was high relative to the revenues from serving a single customer. Therefore we did not think that conditions *(a)* to *(d)* above were met. Moreover, as noted above, we did not think that marginal costs are constant due to the economies of scale and scope that we have found, and we did not think that competitors will be sufficiently similar (due in part to the depot structure of the merging firms and in part to the role of reputation and incumbency).

21. Competitive outcomes typically vary with the number of bidders and their characteristics, and experience in a range of markets shows that competitive outcomes are more likely with a higher number of bidders than just two and when bidders effectively exert competitive pressure on each other. Therefore we did not expect a single competitor—especially one that was less similar to the merged firm than the merging parties were to each other—to be an effective competitive constraint.

[15] Main report, paragraphs 10.57, 10.99 & 11.116.

Parties' submissions on closeness of competition

22. The parties said that there was little or no differentiation between products, but no two customers applied the same risk criteria, and as a result purchases were highly differentiated.[16] They said that there were a number of alternative suppliers of physical security services and alarms in the UK, including Clearway, SPS, SecureSite and MITIE, which already supplied identical security services to social housing and commercial customers in several regions; that there was a 'long tail' of local and regional firms (including Maltaward, Loxal and Pro-Tex); that large security companies including G4S and Reliance also supplied steel screens and doors for vacant properties;[17] and that customers might also self-supply.[18]

Tender data

23. Tender data is in theory a rich source of data to assess competition. If we had perfect information on each tender, we would know which suppliers were willing to compete for a particular customer, we would have some idea of which suppliers the customer considered credible and how they ranked, and we would know that the winner was the supplier which was able to compete most effectively for that customer. In practice, we are generally limited to a supplier's view of whom it competed against, which may give an incomplete picture. Nevertheless, tender data from suppliers can offer a valuable insight into competition. If tenders are of relatively high value and volume then the customer should have a strong incentive to make an informed choice and suppliers should have incentive to compete strongly. Other sales in this sector were often made on a 'quote and order' basis, where a customer contacts one or more suppliers for a quote. At the time the supplier is quoting for the work, the supplier may not know who else is quoting for the work (although, as noted in paragraph 9, we believe that suppliers will typically be aware, if only anecdotally, of which competitors were active in the local area). Quote and order sales were likely to be smaller than tenders, so each individual sale may be of less consequence to both customer and supplier.

24. The parties told us that tenders accounted for only a limited proportion of their income[19]—[✂] per cent of VPS's social housing revenue in 2011[20] and [✂] per cent of its total revenue, and [✂] per cent of SitexOrbis's revenue (excluding central commercial accounts, hence this may overstate). Nevertheless, information relating to tenders provided useful insights into competitive behaviour and the preferences of at least some customers.

25. We have considered the value and limitations of tender data. The main fields of interest in the data available were the identities of bidders and of winners:

(a) *Bidders*. We would not expect the parties to have complete knowledge of the identities of bidders. Therefore, the absence of other bidders in the parties' tender data did not demonstrate that there were no other bidders. Also, some actual bidders may be unsuitable for the customer's needs, and so the presence of other bidders did not demonstrate that there were other credible bidders. Our main interest in this data was the extent to which VPS and SitexOrbis believed

[16] Initial submission, paragraph 1.9.
[17] Initial submission, paragraph 7.22.
[18] Initial submission, paragraphs 7.28–7.31. Self-supply is outside the scope of this appendix.
[19] In each case these figures related to SSVP revenues.
[20] Initial submission, paragraph 10.13. [✂] per cent of VPS's social revenues were generated via tenders and a further [✂] per cent via framework agreements, the largest of which are [✂].

that they bid against each other for the same work, and we tried to compare that with the presence of other bidders.

(b) *Winners.* Clearly, winning does demonstrate that a bidder was credible and a real competitor to the parties.

26. Due to the complex nature of prices, it was not possible to correlate prices with number or identity of bidders (as we might ideally do with better data or a simpler product); it was difficult to identify a single comparable price (eg the weekly rental of a steel door) because our information on tenders did not contain such granular data and because different tenders may offer different pricing structures. This issue was exacerbated by the fact that tenders may include a wide range of services and by inconsistent reporting of tender size.

27. Below we present, in turn, tender data from VPS and then from SitexOrbis. Due to the nature of these sources, we did not expect both parties to have supplied data on exactly the same set of tenders (although there may be some overlap between them). It is also unsurprising to find that one party may know who won a particular tender but the other did not, or for them to have a different view as to who was bidding. What matters when identifying the competitive constraint on each party is the identity of the suppliers that party *believed* it was competing against.

VPS tender data

28. VPS submitted data on [✂] completed social housing tenders involving SSVP. VPS won [✂] of these, SitexOrbis [✂], and other suppliers [✂]: [✂] by Clearway and [✂] (which appeared to be primarily for mobile guarding and key holding services) by Kestrel.[21]

29. To the best of VPS's knowledge, SitexOrbis bid in [✂] of these 55 tenders, SPS in [✂], Clearway in [✂] and no other supplier in more than [✂] (and that was Pioneer, which has since ceased to trade). VPS noted that 'in the majority of … OJEU contracts [social housing bids], [✂] will have [✂] tendered'.

30. There are [✂] commercial tenders, of which VPS won [✂], SitexOrbis [✂], Legion won [✂] (not involving steel), Clearway [✂], and [✂] and [✂] were appointed along with VPS in the [✂] tender. VPS reported that SitexOrbis bid in [✂] of these [✂], Clearway in [✂], SPS in [✂], and a number of other suppliers in one or two.

31. Looking at all tenders where both parties bid, according to VPS's data, all but [✂] won by one of the parties (the exception being a relatively small—£[✂] a year—tender by L&Q; and we also noted the [✂] bid where [✂], [✂] and [✂] were all listed as preferred contractors [✂]).

32. For social and commercial tenders where VPS was the (or an) incumbent, VPS won [✂] and SitexOrbis [✂]. For [✂] tenders where SitexOrbis was believed to be the (or an) incumbent, VPS and SitexOrbis won [✂]. This suggests that it may be particularly difficult for other parties to win work from the merging parties.

33. We also noted that for the two framework agreements in VPS's data, [✂], the parties were the only two providers that were appointed (and seem to be the only ones to have been seriously considered).

[21] These numbers do not sum to 55 because in five cases the winner was unknown, and in two cases both VPS and SitexOrbis were named as winners.

SitexOrbis tender data

34. SitexOrbis submitted information on tenders drawn from more than one source at different points in time, which we have compiled into a single database using our judgement where necessary. We did not know if this was a complete list of tenders in which SitexOrbis has participated in the last three years, but as far as we were aware there is no reason why these tenders should not be representative of the complete set. In some cases there is more than one tender for the same customer in different years. We identified [✂] completed tenders, of which [✂] were in the social sector (including serving intermediaries in the social sector).

35. Of the [✂] social housing tenders, [✂] were won by SitexOrbis, at least [✂] by VPS, and [✂] by others. Other winners included [✂]. Combined, VPS and/or SitexOrbis was a winner in at least [✂]. We noted that in [✂] cases SitexOrbis did not know the identity of the winner (although presumably it was not SitexOrbis; based on VPS's sales data, we believed that [✂]), and several tenders were awarded to more than one bidder.[22]

36. In social tenders where SitexOrbis was the incumbent, [✂].

37. Of the [✂] commercial tenders, SitexOrbis was a winner in [✂] and VPS in [✂]. Other winners included [✂] alongside [✂] in the Grant Thornton tender and [✂].

38. For a subset of the social and commercial tenders, SitexOrbis told us when it thought it was the runner-up. There were [✂] tenders ([✂] social, [✂] commercial) in which VPS/Safe Estates [✂] and SitexOrbis was the runner-up, and a further [✂] in which SitexOrbis did not identify a runner-up. SitexOrbis was not able to supply any other information about the identity of bidders.

39. SitexOrbis also submitted a list of security business that it had lost via a tender process over the past three years. This comprised [✂].

Switching among quote and order customers

40. VPS said that 'quote and order customers account for [✂]% of VPS' commercial revenue and [✂]% of commercial properties served by VPS'. Also [✂] of services supplied by VPS to social customers are on a quote and order basis, with [✂] per cent of social revenue in 2011 accounted for by sales to social customers under contract.[23]

41. The parties were not able to provide comprehensive data on quote and order sales. VPS said that it had some limited information on customer switching in the social housing sector, which included some switching from VPS to SitexOrbis and vice versa but also several examples of customers switching from SitexOrbis to SPS and from VPS to either Clearway or SPS (or both) since 2005/06. It was not clear if VPS intends these examples to be typical or chosen in support of its argument.

42. VPS also supplied some information on quote and order customers in the commercial sector, noting that many preferred to dual supply and thus it was difficult to identify when customers were being 'lost'. VPS provided some examples of customers switching from VPS to a range of other suppliers in the last three years including SitexOrbis, SPS, Clearway, MITIE ([✂]), Securitas/Reliance, Ward Security and

[22] Again, this means that the number of winners does not exactly match the number of tenders.
[23] Initial submission, paragraph 4.9.

G4S.Although switching between suppliers did take place, a substantial proportion of customers held long-term relationships with their SSVP providers, as we noted in our survey (see below).

Customer survey

43. The main conclusion we drew from our customer survey is that customers have very little awareness of suppliers of SSVP and there are no obvious close competitors to VPS and SitexOrbis. When drawing conclusions, it is important to bear in mind that the survey sample was not intended to be representative of all customers in the UK since our primary interest was in customers of the merging parties (ie those who would most directly be affected by the merger). In our sample we imposed quotas on the number of VPS and SitexOrbis customers and prospective customers (ie those who are not currently supplied by the parties). We also ensured that we sampled a good number of both social and commercial customers for each of VPS, SitexOrbis and prospective customers. However, even among prospective customers there is very little use or awareness of other suppliers. We noted that many customers had long-standing relationships with the parties, with 63 per cent of VPS's customers and 64 per cent of SitexOrbis's customers having used them for three or more years.[24] These figures were slightly higher for social housing and slightly lower for commercial customers.

44. We asked customers which supplier they used. Even among the prospective customers, we saw very little usage of any suppliers other than the parties. Looking at all our responses to the question 'Who is your main supplier of steel and/or polymer screens?', the only suppliers that we recognized as providing SSVP (as opposed to live-in guardians, manned guarding or CCTV) were Clearway (one social housing customer), SPS (one social and one commercial), SecureSite (one commercial) and MITIE (one social, [✂]). Two small commercial customers self-supplied.

45. We were aware that some customers use multiple suppliers, but even here there was little mention of competitors. SPS was mentioned by three social customers and one commercial, Clearway and MITIE by one each in each sector, SecureSite and Maltaward by one commercial customer and Loxal by one social customer. Nobody mentioned self-supply.

46. We examined the number of vacant properties protected in order to understand better the needs of customers. The number varied widely but tended to be higher in the social sector. We estimated the number of vacant properties protected based on the number of properties managed, the proportion typically vacant and the proportion of vacant properties typically protected.[25] 50 per cent of commercial customers and 70 per cent of social housing customers protected fewer than 20 properties. 86 per cent of commercial customers and 81 per cent of social customers protected fewer than 100 properties. And 4 per cent of commercial customers and 8 per cent of social customers protected more than 500 properties. The median number protected was two for commercial and ten for social housing customers: in other words, many customers protect only a small number of properties, although at the upper end, some customers protect a large number.

[24] Excluding those who did not know how long they had used their supplier. Survey Q16 & 18.
[25] Survey Q3, 4 & 5. For analysis in this paragraph we have omitted any customer who did not answer all three questions. This may tend to skew the reported numbers downwards if customers with larger portfolios found it harder to answer.

Products used

47. We noted that customers of the parties were more likely to use steel and less likely to use wood than prospective customers. Table 1 shows that almost all of the parties' customers use steel doors and removable steel screens, whereas two-thirds of prospective customers use steel doors and half use steel screens. Battery-powered alarms were used by around half of customers in each category.

TABLE 1 **Security products used by survey respondents**

per cent

	Parties' customers		*Prospective customers*	
	Social	*Commercial*	*Social*	*Commercial*
Steel doors	92.8	89.3	60.0	65.5
Removable steel screens	89.2	81.0	48.0	48.3
Cut to fit steel sheeting	41.4	40.5	36.0	36.2
Polymer screens	25.2	16.7	24.0	13.8
Wooden boarding	22.5	35.7	36.0	43.1
Battery-powered alarms	46.8	46.4	48.0	50.0
CCTV	13.5	28.6	32.0	29.3
Static guards	10.8	23.8	24.0	25.9
Patrols or inspections	17.1	35.7	32.0	41.4
Live in guardians	6.3	14.3	8.0	12.1

Source: CC customer survey.

48. We also note that polymer screens are more widely used in social housing, which is consistent with the view that the primary reason for choosing them is cosmetic and that this is a more important factor in areas of social housing.

Important factors in choosing a supplier

49. We asked customers of each of the merging parties for the main reason why they used that supplier. Customers gave us a range of answers, with existing relationship, service and (for social customers) framework agreements being the most important factors. Price was reasonably important (slightly more so for commercial than for social customers) but was not the only important factor.[26]

50. We also asked customers to score a number of factors on a five-point scale from very unimportant to very important when choosing a supplier. Speed of response was clearly the single most important factor (slightly more important for social customers), followed by minimizing risk of damage. Other important factors included customer service, price and requirements of insurance cover. Product range and innovation, national coverage and ability to provide other services were on average least important (although still very important to a minority of customers).[27] As we would expect, national coverage was relatively important to customers with Great Britain or country-wide requirements but relatively unimportant to regional or local customers.[28]

Awareness of and willingness to use competitors

51. We asked which other suppliers customers would consider for steel or polymer screens. Clearway was named by 5 out of 252 respondents, and no other third party

[26] Survey Q15A & 17A.
[27] Survey Q32.
[28] Survey Q32.

was named by more than two.[29] VPS and SitexOrbis were named by 19 and 18 respectively.

52. Awareness of other suppliers was very low, with around 30 per cent of both social and commercial customers saying that they were not aware of any supplier other than the one(s) they currently used and, in addition, over 40 per cent answering 'Don't know'. Awareness of VPS and SitexOrbis was highest: VPS with 10 per cent of social customers and 5 per cent of commercial customers (in addition to the 38 and 33 per cent respectively that already use them); and SitexOrbis with 11 per cent of social customers and 7 per cent of commercial customers (in addition to the 49 per cent and 39 per cent respectively that already use them). The next highest in the social sector was SPS with 6 per cent (in addition to the 2 per cent that already use them) and, in commercial, MITIE and Clearway with 4 and 3 per cent respectively (in addition to the 1 per cent each that already use them).[30]

53. We also prompted customers with a list of suppliers active in SSVP and in the broader security sector, and asked which ones customers would consider. Among social customers, 24 per cent said 'None' and 24 per cent said 'Don't know'. Among commercial customers, 16 per cent said 'None' and 22 per cent said 'Don't know'. We observe that no suppliers (other than VPS) would be considered by more than a quarter of customers, and those that would be considered appeared to be dominated by companies with a broader brand name (such as MITIE, Chubb and Mears) rather than actual direct providers of SSVP.

54. We asked customers of each of the merging parties which supplier they would switch to if their supplier ceased to exist. There are three general results from this question. The first is that the majority of respondents did not know to whom they would switch. The second is that those who did name an alternative generally picked the other merging party. The third is that self-supply was rarely mentioned and only among social housing customers. We present the results below and consider the implications for diversion ratios.

SitexOrbis's customers

55. Among social customers, 52 per cent said 'Don't know' and 14 per cent said that they would research or tender. 19 per cent said VPS, 3 per cent said SPS, 3 per cent said self-supply, and 2 per cent named various general contractors or security firms (such as Chubb). If we exclude those who could not answer, we would say that 58 per cent would switch to VPS (and 9 per cent to SPS). However, we would note that we are now dealing with small sample sizes.

56. Among commercial customers, the results are similar, with 64 per cent saying 'Don't know', 3 per cent 'Depends' and 3 per cent 'Research or tender'. 10 per cent said VPS and 3 per cent each named a range of suppliers (including Clearway, SecureSite and general contractors). The share of named answers giving VPS was 33 per cent (again noting the small sample size).

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[29] Survey Q14a. We note that the very small number of customers already using third party suppliers would not have been able to name the third party they use in answer to this question, and so it slightly understates the number of customers that would consider each supplier.
[30] Survey Q14b. Suppliers already used from survey Q13b.

VPS's customers

57. Among social customers, 41 per cent said 'Don't know', 2 per cent said 'Depends' and 12 per cent said they would research or tender. 34 per cent said SitexOrbis, 2 per cent said each of Clearway, MITIE and self-supply. If we exclude those who could not answer, we would say that 76 per cent would switch to VPS (and 4 per cent to each of the smaller options). We would again note that we are now dealing with small sample sizes.

58. Among commercial customers, there is greater uncertainty, perhaps reflecting VPS's stronger position in the commercial sector. 68 per cent said 'Don't know' and 3 per cent 'research or tender'. 6 per cent said SitexOrbis and 3 to 6 per cent named each of a range of suppliers (including Clearway, SecureSite, SPS, MITIE and general contractors/security firms). The share of named answers giving SitexOrbis was 21 per cent (again noting the small sample size).

Interpretation: diversion ratios

59. Our Merger Guidelines[31] say that the closeness of substitution between products can be indicated by the diversion ratio between them. In other words, when company X raises its prices (or ceases to exist), the diversion ratio between X and Y tells you what proportion of company X's customers would move their business to company Y. Absent a merger between X and Y, the profits earned on those customers would be lost to company X. Post-merger, those customers would switch to Y and so be re-captured by the merged company. Therefore the higher the diversion ratio between X and Y, the more likely it is that a price rise will be profitable.

60. In this case we were cautious about deriving diversion ratios from the data presented above because of the high incidence of 'Don't know' and similar responses. Normally there are two standard ways of dealing with 'Don't know' responses: we can take the answers as given (and implicitly assume that none of the 'Don't knows' will switch to company Y), which gives a lower bound, or we can allocate all of the 'Don't knows' in the same proportion as all of the well-specified answers.[32] Allocation is viewed as giving a more representative answer, as long as we do not think there is anything different about the 'Don't knows'. In this case, we have the added problem that using allocation involves small sample sizes and greater uncertainty (because of the large number of 'Don't know' answers).

61. Comparing these two methods gave a large range of answers.[33] For social customers we had a lower bound of 19 per cent (from SitexOrbis to VPS) or 34 per cent (from VPS to SitexOrbis) but the allocation method gave 58 or 76 per cent respectively.

62. For commercial customers we had a lower bound of 10 per cent (from SitexOrbis to VPS) or 6 per cent (from VPS to SitexOrbis) but the allocation method gave 33 or 21 per cent respectively.

63. Accordingly, we did not place much weight on particular numbers, but we did observe that diversion ratios were likely to be relatively high—especially in the social housing sector. This was consistent with customers' limited awareness of other suppliers and the high market shares of the merging parties.

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[31] *The Guidelines*, paragraph 5.2.15.
[32] A third way is to assume that all of the 'Don't knows' will switch to company Y. This would give an upper bound and would clearly be very high in each case here.
[33] We have aggregated 'Don't know', 'Depends' and 'Would research/tender it'.

Customer comments

Commercial

64. AXA told us that it could in principle easily switch its national relationship and that there were many companies now in the market (partly for alarms due to 'Videofied' technology). However, AXA also told us that its requirements were a single company, available 24 hours a day, willing to operate nationwide at a single price, offering alarms, with a one-stop-shop to provide guarding, steel, cleaning and inspections as needed. AXA told us that it had spoken to other suppliers over the years but many could not get near [✄] prices. In particular, AXA spoke to [✄] a year ago but at the time it was not fully national and AXA doubted its ability to deliver the services it required nationwide for fixed prices.

65. Grant Thornton currently uses a panel of three suppliers: [✄], SecureSite and GMS. It said that it did not want two or more 'big companies' and instead liked to use one big company, one medium-sized company and one bespoke company as this ensured competition. The three suppliers together covered the whole country. Grant Thornton said that it viewed the alternative large-sized suppliers, other than the merging parties, as consisting of SPS and SecuriGroup. Grant Thornton told us that in last year's review, it had invited 19 companies to participate in the supplier review, of which ten responded. Six companies made it to the presentation stage including [✄], though it was then eliminated due to unresolved billing issues over the previous two years, and the fact that its presentation was not considered to be as strong as [✄]. With reference to GMS's and SecureSite's nationwide coverage, Grant Thornton said that [✄] had previously performed well as far afield as Scotland, and that [✄] had told Grant Thornton that it would 'go anywhere nationwide'. Grant Thornton had had concerns with SecureSite's potential response times given its lack of depots: however, SecureSite had pointed out that it had provided a good service for Little Chef.

66. Enterprise Inns told us that it was vital to have a supplier with a nationwide network and depots close to its vacant properties, since it required a supplier that could react on a national basis at often very short notice (same day). It considered that there were a number of national suppliers including Clearway and SPS which could meet its requirements. It said that it would be possible to meet its requirements using a set of regional suppliers but doing so would require a considerable amount of management and administration time, and a single-source supplier was a much more effective and efficient option for its business.

67. [A major grocery retailer] told us that response times to reported trespassing was the most important factor; a security supplier needed to provide a same-day service and have a nationwide presence. It said that it had never experienced a problem with either VPS's or SitexOrbis's response time. [✄] This retailer said that national suppliers gave wider coverage and therefore quicker response times, and that VPS and SitexOrbis were the only two suppliers that could currently service its needs, despite its regional commissioning.

Social housing

68. LHC told us:

> There are few companies that can provide such a comprehensive package of services. Of 29 companies that applied to be included on the current framework, only 2 were capable of returning tenders for the

> works required to be offered—SitexOrbis and VPS, who, by virtue of their size, location, geographical coverage and market penetration, are close competitors. ... Very few social housing sector customers would choose or be able to self supply, for reasons of lack of In-House Direct Labour Organisations and low volume price disincentives.

69. Evidence from 2020 Liverpool suggests that VPS and SitexOrbis were far better than [✂].[34] 2020 Liverpool told us that it preferred to appoint two suppliers to deal with volume and to have back-up in the event of one supplier failing to deliver the contract requirements. [✂]

70. VPS submitted to us [✂] evaluation document, where the only applicants were [✂] (which, [✂] told us, applied for every [✂] regardless of whether it was suitable) [✂] (which, according to [✂], did not complete the process properly and are now in administration). [✂] also told us that [✂]. In [✂] final ranking, the parties were ranked at [✂] and [✂] per cent. The parties' interview scores [✂], and [✂] prices [✂], were [✂]. This suggests that there is no obvious replacement for SitexOrbis as an approved supplier to [✂]. [✂] told us that it would ideally like at least six approved suppliers for each region but was able to appoint only two.

71. Ealing Council, which uses [✂], told us that VPS, Clearway and SPS were all capable of meeting its needs, but that they [✂]. Ealing Council told us that it would not consider using consortiums, facility management companies or more general security companies for its void properties as these companies tended to subcontract work and it wanted to deal directly with the actual security provider as this provided Ealing with the best service delivery.

72. Nottingham City Homes (NCH) told us that in its 2009 tender, [✂]. With regard to its current tender, NCH told us that it had gone through a full OJEU open tender procedure and that the award date was 1 May 2012. It had been put out as an EEM framework tender, as opposed to the previous NCH contracts; other EEM members' vacant property security requirements were included in the EEM tender document. [✂] NCH said that its current tender document specified that, in an emergency situation, it expected a supplier to be on site within 30 minutes of being called out; VPS and SitexOrbis had previously demonstrated their ability to achieve this requirement.

73. Bolsover District Council said that [✂], though it would not change provider just based on price. It said that response time, quality of service and adhering to the agreed price structure were the main attributes it looked for in a security provider.

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[34] [✂]

Product substitutability

1. The OFT referred to us the merger between VPS and SitexOrbis, with a particular view to the supply of security services for vacant properties. For the purpose of this inquiry, we considered vacant property security services to comprise two categories of services. The first of these consisted in particular of the sale, rental or installation of steel and polymer screens, steel doors, permasteel sheeting and battery-powered GSM alarms in order to secure vacant property, which we have referred to collectively as SSVP for the purposes of this report. In addition to these services, the parties also overlapped in the supply of non-security vacant property services (eg clean-and-clear, facilities services), and claimed competition from vacant property security services other than SSVP (wooden boarding, CCTV, various types of guarding).

2. This appendix assesses evidence on the extent to which these other services were substitutable for SSVP and could constrain a price increase by a hypothetical monopoly supplier of SSVP.

3. In making this assessment, we considered: product characteristics; evidence submitted by the parties; evidence from our customer survey; and evidence from hearings with competitors and customers.

4. We noted that in this sector, customers were heterogeneous and generally received unique and individually-priced services. Therefore we expected that for some customers there would be acceptable substitutes for the parties' products, and for other customers there may not have been. The prices that customers paid may reflect this: those with greater substitutability may already have paid lower prices than those with very specific requirements, although we were not able to confirm this due to the lack of appropriate data.

5. More importantly, our concern was that post-merger prices may rise for customers who do not have suitable alternatives to SSVP. Those customers willing to substitute alternative services for SSVP may be to some extent protected from post-merger price increases. Because prices were individually negotiated with customers, this protection could not be extended to customers that were not able or willing to switch from SSVP to alternative services, and they could therefore be confronted with higher post-merger prices.

Parties' views

6. The parties submitted that the relevant product market should be defined no more narrowly than the supply of integrated vacant property services, including:

   (a) physical security (steel/wooden screens and doors, polymer screens, steel permascreens and electronic key management services);

   (b) 'proactive security' (inspection services, lock changes, first-response service and manned guarding);

   (c) alarms (including first-response services);

   (d) clean-and-clear services; and

(e) facilities services.

7. The parties overlapped in the supply of SSVP and in the provision of clean-and-clear services.

8. The parties submitted that demand for SSVP was ‘highly price sensitive due to the limited (if any) product differentiation within physical security products and within alarms, and the wide variety of alternative approaches available to customers of vacant property services’. Among these alternative security approaches the parties included ‘board-up, use of guardians, measures to disguise vacant properties to make them look occupied or simply doing nothing’.[1]

Customer segmentation

9. The parties told us that end-customers could be divided into two broad types (or sectors), social housing customers and commercial customers. The parties also supplied intermediaries (such as MITIE and Wilmott Dixon). Here, the requirements of the buyers would still be driven primarily by the needs of end-customers, although intermediaries may have had some flexibility to choose between alternative means of vacant property security. Commercial customers may also have been influenced by insurance requirements.

10. The views of third parties supported the segmentation of the market between commercial and social housing customers. For instance, Clearway said that ‘the commercial sector requires more complex solutions generally’ than the social housing sector. The former often required a wider range of security solutions than the more standardized security services required by social housing customers. Loxal referred to ‘two very discrete markets’ that were approached differently by specialist security providers. These different approaches were a response both to different product requirements and to different purchasing procedures. For instance, according to Loxal, public procurement procedures led to a higher emphasis on price than quality in the social housing sector, compared with the commercial sector.

11. The parties’ internal organization also supported the view that different types of customers have distinct requirements. We noted that one of [✂] recommendations for the merged entity was ‘[✂]’.

12. We observed that revenues, margins and growth perspectives differ significantly between commercial and social sectors. Both parties confirmed that there was little or no growth in social housing, and that margins were [✂]. Clearway said most of its growth had been in the commercial sector, where there were greater opportunities and margins. Loxal said that the opportunity to expand was limited by the very low margins available on some social housing contracts. MITIE, an intermediary, said that social housing margins were very low compared with commercial margins.

13. There may also have been some further segmentation even within the commercial sector: for example, some parties told us that pub companies generally had different requirements from other customers—we were told that they often had national requirements and paid relatively low prices.[2]

14. Our customer survey indicated that differences existed between service requirements for social housing customers and commercial customers. Regarding the length of

[1] VPS/SitexOrbis joint initial submission, paragraph 5.4.
[2] Main report, footnote to paragraph 11.87.

time properties typically remain vacant, 31 per cent of social housing respondents said less than a month and 24 per cent said between one and three months. The same answers were given by only 9 and 15 per cent of commercial customers interviewed, respectively. This was consistent with commercial properties being vacant for longer periods of time than social housing properties, on average.[3]

15. According to the survey results, differences were also substantial with respect to the number of properties managed. Social housing respondents typically managed a large number of properties: 43 per cent of them managed more than 5,000 properties while just 14 per cent of them managed fewer than 100 properties. The situation was the reverse for commercial respondents, with only 6 per cent of them managing more than 5,000 properties, while 46 per cent managed a portfolio of less than 100 properties.

16. The results of the survey therefore suggested that social housing and commercial customers manage significantly different portfolios of properties, which was consistent with the two sectors of customers having distinct requirements regarding the provision of SSVP.

Distinct product requirements

17. We asked VPS to provide us with typical pricing for different forms of security for social housing and commercial properties. VPS told us that there was considerable variance in pricing in the market, but it provided us with prices '[✄]'. These are shown in Table 1.

TABLE 1 **Costs of different forms of security**

£

Security mode	*Steel screens and doors and alarm (weekly)*	*Polymer screens, steel doors and alarm (weekly)*	*Steel doors, wooden boarding and alarm*	*Alarm only (weekly)*	*Inspections and alarm (weekly)*
Three-bed semi-detached council house	[✄]	[✄]	[✄]	[✄]	[✄]
Inner-city pub	[✄]	[✄]	[✄]	[✄]	[✄]

Source: VPS estimates. These do not include installation fees for steel and alarms, chargeable on some properties.

18. VPS did not believe that either of these types of property would be protected by CCTV. VPS said that 'it is highly unlikely that a three bedroom council house or a typical inner city pub would opt for manned guarding as a security option. Manned guards are typically used only for larger properties, such as large vacant storehouses'. VPS also told us that, with respect to live-in guardians, it understood that [✄]; Camelot told us that fees ranged from [✄].

19. VPS told us that 'most of the social properties VPS secure can be more cost effectively secured using wood. Furthermore, the benefit of using wood is greater the longer the expected void time due to the lack of ongoing rental charges'.

20. We noted that all of these alternatives to steel and alarms (both physical and non-physical) were typically offered either under a different pricing system (for example, wooden boarding which would typically be purchased rather than leased) or were available at very different price levels (for example, live-in guardians appeared to be much cheaper, and manned guarding appeared to be much more expensive). They

[3] Survey Q7.

also offered different levels of security: some customers told us that they categorized properties according to the level of risk and felt that higher-risk properties required a certain level of protection, with a large downside risk that exceeded likely savings of a cheaper solution.[4]

21. This did not mean that the alternative services mentioned above could not impose a competitive constraint on steel, polymer and alarms, but the variation in pricing mechanisms and levels did make it harder for customers to compare different alternatives and so was likely to blunt any competition between them. Some customers may not have been willing to trade off different types of security to get the best 'value'. For example, Grant Thornton told us that the insurer would decide the minimum level of security that was necessary, and Grant Thornton used a minimum spend policy based on that.

Customers' ability and willingness to switch to other products

22. In this section, we assess the evidence on the extent to which customers were willing to switch from vacant property security services as defined above (steel and polymer screens, permasteel sheeting, steel doors and GSM alarms), first to other (non-security) vacant property services, and secondly to other types of security services (such as wooden boarding, CCTV and manned guarding). We acknowledged that the ability and willingness to switch may have differed across types of customers, just as their product and service requirements differed.

Substitutability and bundling with other non-security products

23. We noted that security services were often procured under the same contracts, and from the same suppliers, as other vacant property services (notably clean-and-clear services and facilities services). However, this in itself was insufficient to demonstrate that security and non-security services are within the same relevant market. These non-security services did not appear to be direct substitutes for SSVP.

24. By their nature and purpose, non-security services were not direct substitutes for security services. Although they were often supplied together, they could also be supplied separately. According to the parties' internal documents, customers could see the difference between specialists and general security companies; and customers have different sourcing arrangements for different products. Indeed, some customers may have taken security services from one of the parties and clean-and-clear or facilities services from the other (eg [✂]).We did not believe that many customers would have a strong requirement to purchase them together (although there may be some convenience value to doing so).

25. Even when supplied together, the risk associated with requirements for security services suggested that it would be the security element that drove a customer's choice of provider, rather than, for example, clean-and-clear services.

26. Moreover, there also appeared to be a wide range of suppliers for other vacant property services, ranging from large facilities management companies and small local firms, whereas relatively few firms supplied SSVP. We also understood that margins on vacant property security services were considerably higher than those on other vacant property services.

[4] For example, Fusion 21 cited the potential high cost of having gas boilers stolen.

27. For these reasons, we did not expect non-security services to constrain directly the prices charged for security services and we did not expect there to be any competition problems specific to non-security services that would have an impact on our assessment of this merger.

Substitutability with other security products

28. The parties submitted that demand for SSVP was 'highly price sensitive due to the limited (if any) product differentiation within physical security products and within alarms, and the wide variety of alternative approaches available to customers of vacant property services'. Among these alternative security approaches the parties included 'board-up, use of guardians, measures to disguise vacant properties to make them look occupied or simply doing nothing'.[5]

29. The parties submitted that there were disadvantages to using steel security products, including aesthetic shortcomings, the fact that they indicated that a property was vacant, and price.[6] Clearly each type of security product had its advantages and disadvantages, which must be set against the differences in price between them. Our concern was whether alternatives to the parties' vacant property security services were close enough substitutes that they would constrain a price rise (or reduction in service quality) post-merger.

30. We divided other security products into two categories:

(a) alternative physical security products, eg wooden boarding; and

(b) alternative non-physical security products, eg CCTV, manned guardians, live-in guardians.

31. We assess these in turn below.

Alternative physical security products

32. The parties supplied some examples of customers switching to alternative products, notably [✄] which used a combination of board-up and breezeblock. We believed that these were properties scheduled for demolition. It could well be that wooden boarding is a better substitute for steel in demolition properties than in other properties. In the commercial sector, the parties cited [✄] which, they said, had apparently switched to wooden boarding. Enterprise Inns told us that steel screens were fully interchangeable with other options such as timber boarding, and it might use VPS to fit a steel door and alarm with its partner contractor providing timber boarding to the windows. It said that using its own network to deliver security did not give the same levels of efficiency, consistency or management information as using a single-source third party supplier. Enterprise Inns also said that price was not the main consideration; the main consideration was risk to the site.

33. The consensus from most third party comments was that customers had specific requirements for the level of security they needed and that different physical security products were perceived as appropriate for distinct security requirements. These requirements might vary by property, but customers were reluctant to change the level of security for a given property even if the prices for some services were to increase.

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[5] Initial submission, paragraph 5.4.
[6] Initial submission, paragraph 5.6.

34. In particular, wooden boarding was felt to be less secure, more easily vandalized, degraded in winter and could be an arson risk in summer. It may be used as a temporary measure but was not generally considered to be a good substitute for steel (or polymer).

35. For example, 2020 Liverpool told us: ‘we do not use wooden boarding as it is too easy to damage and/or remove from the window openings’. When asked if it would switch to other security solutions following a hypothetical increase in the price of steel and alarms, it told us: ‘Premises need to be made properly secure. Providing lower cost inadequate security would be more likely to result in property breaches and or damage to properties. The added cost of dealing with these issues could outweigh any increases in contract costs’.

36. AXA told us that plywood was too easily removed, degraded in winter and was a fire risk in summer; it was also easily vandalized which attracted undesirable attention. However, we note that AXA also rarely used steel (except on doors) since it made properties less attractive for sale or rental. AXA primarily used wireless alarms.

37. Grant Thornton said that it used a minimum spend policy—because it needed to control costs in an insolvency scenario—that was not governed by the supplier; negotiations usually took place between Grant Thornton and the insurance company. The insurer would decide what level of security service was needed; if a more expensive option was not entirely necessary, it would not be used.

38. Fusion 21 told us that its members did not appear interested in wooden boarding (although a few were interested in polymer, about 95 per cent used steel) and that guardians or patrols were not viable means of protecting social housing. It told us that customers needed a certain level of security and it was difficult for them to change their needs in response to (for example) price changes.

39. LHC said, when asked about ‘Other security services (such as wooden boarding, CCTV, manned guarding, inspections and/or live-in guardians)’:

> LHC’s framework includes other security services, but those described above cannot be considered alternatives to steel screens, but complementary. Timber boarding may be used for emergency short term purposes, but as timber is more vulnerable to attack, steel would be used for the medium or long term.

40. Ealing Council told us that it tended to use wooden boarding only as a temporary measure and that, in comparison, steel was far more durable, cost-effective and quicker and easier to install. It would only ever use manned guarding where it needed to secure a property very urgently. It said that even if, theoretically, there were a 10 per cent increase in the cost of steel measures, the use of steel would still be more cost effective due to the competitive rental price and its reusability.

41. Nottingham City Homes (NCH) told us that it used wooden boarding on an interim basis if, for example, a property had been broken into overnight; this was carried out in-house. NCH had considered using polymer screens; however, it concluded that steel was more cost effective. If prices increased post-merger, NCH said that it would consider using wooden boarding instead of steel. However, this would be risky and it would have to balance the increased cost with the increased risk. These risks included the increased chance of vandalism, arson and squatting.

42. With regard to self-supply, NCH told us that it would potentially consider providing security services in-house if there was a price increase, though it may not be cost

effective. It had not previously considered providing these services in-house due to the cost of purchasing and installing steel screens; it was cheaper to outsource.

43. Leicester City Council told us that it used steel screens and doors only. The extent of screens/doors installed depended on the property type and location. It could range from only a door on a flat to every opening on every floor of a house. No alarms, CCTV or other forms of security were used. Wooden boarding was not used to secure vacant properties because it was ineffective against break-ins.

44. Bolsover District Council said that it applied three levels of risk for void properties: low-risk properties required no security measures, medium-risk properties required the self-supplied polymer 'Shutter Up' system, and high-risk properties required steel screens.

45. Bolsover District Council said that the Shutter Up system involved a polymer product, and was sold to Bolsover District Council as an alternative to steel screens; it installed the 'Shutter Up' system itself. It said that the 'Shutter Up' provided little visual deterrent and therefore was ineffective against preventing vandalism and, as such, it did not use it for high-risk properties. It did not use wooden boarding and considered polymer ('Shutter Up') to be more secure than wood. It did not currently have any 'Shutter Ups' installed and, at most, would have five to six properties secured using the system in a year. It used permasteel products for its demolition properties, though it was not cost-effective to use permasteel for re-let properties as the fittings damaged windows. It would consider substituting steel for alternative products such as polymer and wood if there was any level of price increase. However, it needed to be cost effective; it considered polymer ('Shutter Up') to be the closer alternative to steel.

46. Incommunities said that it had found double boarding to be effective but it would take a 25 per cent increase in the price of steel for it to move away from steel doors to timber.

47. [A major grocery retailer] said that it used steel screens to secure its properties, and that there were weekly site visits to supplement this if required. It did not use wooden boards due to the risk of fire and because they were not as secure as steel screens.

48. Our customer survey indicated that steel and wood were used for very different reasons.[7] The main reason for using steel instead of other security measures was that it was 'more secure', cited by 55 per cent of commercial and 58 per cent of social customers, with the second most common reason being durability (11 and 15 per cent respectively). 'For specific locations' was also mentioned by 10 and 8 per cent. The reasons for using wood were cost factors (51 per cent of commercial customers who used wood, 26 per cent social) and also as a temporary solution (16 per cent commercial, 18 per cent social); only 7 and 3 per cent respectively said that wood was 'more secure'. This did not demonstrate that wood cannot be used as a substitute for steel in certain circumstances or that it could not constrain the pricing of steel at a particular price differential, but it did suggest that the two are not close substitutes for most customers.

49. Regarding polymer screens, we noted from our survey that polymer screens were more widely used in social housing (around 25 per cent of respondents) than in commercial (around 16 per cent), which was consistent with the view that the primary reason for choosing them was cosmetic and that this was a more important factor in

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[7] Survey Q9–11.

residential areas (for social housing). The main reason to use them appeared to be their better appearance. For instance, Incommunities said that it had used polymer on void properties located on a bus route to reduce visual impact, although its use remained very limited. Among the respondents to our survey, 24 per cent of commercial customers using polymer and 32 per cent of social customers using polymer cited appearance as being the main driver. Other reasons to use polymer screens included recommendations from the provider (24 and 6 per cent respectively), durability (5 and 15 per cent respectively), higher security (19 and 9 per cent respectively) and cost factors (10 and 9 per cent respectively). Typically, polymer screens were more costly than steel screens and sheets and this seemed to be an important factor explaining their limited use. Clearway confirmed that polymer screens implied higher costs without providing higher security, hence Clearway did not recommend the use of polymer to its customers and customers did not tend to ask for it either. NCH, for example, considered using polymer in the past, but decided not to due to its higher cost.

50. Our survey suggested that permasteel (perforated steel sheets cut to fit) was used by around 40 per cent of the parties' customers (both social and commercial) and by a slightly lower proportion of prospective customers (around 36 per cent). Permasteel appeared to be a close substitute to demountable steel screens and was supplied by both parties and by their competitors. In some circumstances, permasteel may have been more suitable, given the greater flexibility it provided. Clearway explained that permasteel was particularly convenient in certain circumstances; eg when openings were of non-standard sizes and/or shapes (as permasteel could be cut to fit); when the characteristics of the property were not fully known before the site visit and extra sheets must be carried (as permasteel sheets were lighter and easier to transport than steel screens); or when openings could not be easily opened or deglazed.

Alternative non-physical security products

51. The parties provided some examples of social housing customers using non-physical security products like CCTV and manned guarding for vacant properties as an alternative to physical security.

52. However, these examples did not appear to reflect switching in response to price rises; we thought they simply reflected a more suitable solution for certain customers. In particular, we were told that manned guarding was a very expensive solution and we would not expect it to be a significant constraint on physical security or alarms, although inspections and patrols may be a closer substitute.

53. VPS told us that it would not expect smaller residential properties (eg a semi-detached council house) or smaller commercial properties such as pubs to be protected with CCTV or manned guarding.

54. Live-in guardians did not appear to be a suitable substitute for SSVP either for most customers. Although Camelot told us that live-in guardians were suitable for any property type, 90 per cent of the properties it protected were commercial properties which were part of demolition and/or refurbishment programmes and it was not present on any void security procurement frameworks. Camelot said that, at present, most insurance companies accepted live-in guardians. Camelot said that it had won some business to protect vacant social homes but this was for protecting properties which were part of demolition and/or refurbishment programmes. It also worked for some councils to protect their commercial/municipal buildings.

55. AXA told us that it did not consider guardians to be suitable for commercial properties.[8]

56. Enterprise Inns told us that it used live-in guardians for some sites when it knew that the site would be closed for a longer period, to ensure that the site remained in good condition.

57. Spirit told us that it had closely evaluated the use of live-in guardians as an alternative for steel security. Spirit said that there was normally a large up-front cost in restoring a vacated pub to a state fit for a live-in guardian. There were also potentially other additional costs. Guardians also required a minimum occupation period and this was problematic since Spirit's aim was usually to either return a pub to service or sell it with vacant possession as soon as possible. A further disadvantage was that a guardian might not be available at short notice when a pub became vacant, and so steel security would be necessary in the interim. Of Spirit's 40 vacant pubs, some might be suitable for guardians. However, Spirit wanted to have one supplier and one point of contact for its vacant property security needs. Overall, the live-in guardians were more expensive and less well suited to Spirit's needs for an immediate response and flexibility in selling vacant properties. However, Spirit would not rule out using them if other suppliers became more expensive and if providers could continue to improve their service offering.

58. Spirit said that the alternative to steel security was to get 24-hour manned security. Manned security was very expensive in comparison. The decision for using manned security or steel security depended on the vacancy time and the cost.

59. [A major grocery retailer] said that [✂].

60. 2020 Liverpool told us that 'CCTV and manned guards are expensive and would only be used in extreme circumstances when the steel sheeting is being repeatedly attacked'.

61. LHC said, when asked about 'Other security services (such as wooden boarding, CCTV, manned guarding, inspections and/or live-in guardians)':

> LHC's framework includes other security services, but those described above cannot be considered alternatives to steel screens, but complementary.
>
> - CCTV cannot be used to protect property, merely deter and record activity
> - Manned guarding can be used to back up but not substitute for steel screen security.
> - Inspections and live-in guardians can be used to back up but not substitute for steel screen security.

62. Incommunities said that it would not consider manned guarding as an alternative.

63. Results from our customer survey indicated that when substitutes for SSVP were used, this was due to a variety of reasons. Alternative security measures could be used when they were perceived to be more secure, less costly and for specific

[8] AXA hearing summary, paragraph 12.

locations. While respondents used steel mainly because it was perceived to be more secure, no specific reason stood out as justifying alternative security approaches. This was probably due in part to the fact that this range of alternative security measures was relatively heterogeneous and different measures were perceived to have different advantages.[9]

64. The general view from customers was therefore that customers did not regard non-physical security services as a substitute for SSVP. In particular, manned guarding was widely viewed as very expensive and would be unlikely to constrain a price rise, and live-in guardians were not viewed as a suitable substitute.

[9] Survey Q12.

Remedies analysis

FIGURE 1

Locations of VPS and SitexOrbis depots pre-merger in [✂]

[✂]

Source: Locations provided by the parties, CC analysis.

FIGURE 2

VPS and SitexOrbis pre-merger overlap in [✂]

[✂]

Source: Locations provided by the parties, CC analysis.

FIGURE 3

VPS and SitexOrbis overlap in [✂]

[✂]

Source: Locations provided by the parties, CC analysis.

FIGURE 4

VPS and SitexOrbis overlap in [✂]

[✂]

Source: Locations provided by the parties, CC analysis.

FIGURE 5

[✂]

Source: SitexOrbis/TDR.

Glossary

ALMOs	Arm's-length management organizations. Not-for-profit companies set up by (but operating separately from) local councils that often work with **LAs** and **RSLs** to deliver social housing services.
Battery-operated alarms	Alarms powered by regular batteries as opposed to the mains electricity supply.
CCTV	Closed circuit television. The use of surveillance cameras with images transmitted to a central control room.
Clean-and-clear services	In relation to vacant properties: cleaning and clearing waste, room strip-outs, decontamination service and specialist cleans.
Commercial customers	Customers including construction companies, finance and insurance companies, insolvency practitioners, property services companies, facilities management companies, retail companies (eg supermarkets) and pub/brewery companies.
Depot	In this report, a basic operational facility where stock (ie steel screens/doors and wireless alarms) is kept and from which customers are supplied and personnel operate. See also paragraph 5.24 in the main report.
DLOs	Direct labour organizations. **LA**-employed labour forces that provide blue collar or trades-based services for, inter alia, building and grounds maintenance and, in some cases, **vacant property security services**.
E&Y	Ernst & Young. Firm appointed to conduct the sale of **SitexOrbis**.
Framework agreement	A framework agreement is a general term for agreements with a provider, or providers, that set out terms and conditions under which specific purchases (call-offs) can be made throughout the term of the agreement.
Housing associations	Private, non-profit-making organizations that provide low-cost social housing for people in need of a home.
Information memorandum	A marketing document used to promote a business during a sale process.
Intermediaries	Companies that sit between **SSVP** suppliers and the end-customer that wishes to use the suppliers' services. These are typically major contractors and facilities management or security companies, which subcontract **vacant property security services** out to specialist **SSVP** suppliers.
ITT	Invitation to tender. A procedure for generating offers from different bidders looking to obtain a contract following the **PQQ**.
LAs	Local authorities.

'Live-in guardian'	Someone who occupies a vacant property to provide security for the vacant property. The 'live-in guardian' may pay rent to a guardian company.
'Lock-up'	Typically, a small unmanned storage location. See also **depot**.
Manned guarding	The provision of a security guard.
MBO	Management buyout.
Non-security vacant property services	Vacant property services such as **clean-and-clear** and facilities services.
OJEU	The Official Journal of the European Union. The central database for European public sector tender notices.
Polymer screens	Hard-wearing transparent plastic screens used to secure openings to vacant properties.
PQQ	Pre-qualification questionnaire. The initial questionnaire seeking information about a company during a tender.
PwC	PricewaterhouseCoopers.
'Quote and order'	Where a customer contacts one or more supplier for a quote for a service, on a one-off basis.
RSLs	Registered social landlords. Government funded not-for-profit organizations which take on the functions of landlords and work with **ALMOs** and **LAs** to deliver social housing services. These may include **housing associations**, trusts and co-operatives.
Safe Estates	Former name of **VPS**'s UK arm prior to rebranding in March 2011.
Self-supply	The in-house supply of **SSVP** by organizations.
Sheet steel/ permascreens	Flat, thin sheets of galvanized steel used to secure openings to vacant properties.
Shutter Up	A polymer screened void security system. See: www.windowsecuritysafety.co.uk/Shutter-Up.
SitexOrbis	SitexOrbis Holdings Limited. One of the parties to the merger.
Social housing customers	Customers including **LAs** and other **RSLs** (including **housing associations**, trusts and co-operatives).
SSVP	The supply of vacant property security services: comprises the installation of prefabricated demountable steel screens and doors, 'permasteel' (that is, steel sheets which are cut to size and affixed over openings to the property), polymer screens and battery-powered security alarms.
TDR	TDR Capital LLP. A private equity fund manager which, via TDR Capital Nominees Limited, owns **VPS**.

Vacant property security services	See **SSVP**.
Vacant property security services other than SSVP	Other ways of securing vacant properties including **CCTV**, **manned guarding**, the use of security patrols, **live-in guardian**s and **wooden boarding**.
Videofied alarm	An alarm system purchased and supplied by certain vacant property service providers that records and transmits a short video when activated.
VPS	VPS Holdings Limited. One of the parties to the merger.
Wooden boarding/ 'board-up'	The use of wooden panels as a way of securing vacant properties.