

Completed acquisition by Teacrate Limited of GB Nationwide Crate Hire from Crown Records Management Limited

**ME/4271/09**

**The OFT's decision on reference under section 22(1) given on 8 January 2010. Full text of the decision published 22 January 2010.**

---

Please note that the square brackets indicate figures or text which have been deleted or replaced in ranges at the request of the parties or third parties for reasons of commercial confidentiality.

## **PARTIES**

1. **Teacrate Limited** ('Teacrate') is a wholly owned subsidiary company of **PHS Group plc** ('PHS'), whose ultimate parent company is Charterhouse General Partners (VII).<sup>1</sup> Teacrate's business is predominately to offer for hire crates and associated products (for example, packaging materials and crate handling equipment) for use in removals. It has nine depots located in Birmingham (two depots), Bristol, Leeds, Livingston (Scotland), London (two depots), Manchester and Sunderland.
2. **GB Nationwide Crate Hire** ('GBN') was a line of business of Crown Records Management Limited (Crown). Like Teacrate, GBN's business was to offer for hire crates and associated products. It operated from six depots, located at Birmingham, Bristol, Enfield (London), Gateshead, Glasgow and Manchester.
3. For the year ending 31 December 2008 GBN's total UK turnover was around £[0-5] million.<sup>2</sup>

---

<sup>1</sup> PHS submitted that no other Charterhouse companies provide crate rental services.

<sup>2</sup> Teacrate submitted that GBN's projected turnover for 2009 was approximately £[0-1] million, due primarily to the loss of its largest customer, [ ].

## TRANSACTION

4. On 31 July 2009 Teacrate acquired GBN from Crown for £[0-1] million. On 14 August 2009, the transaction was made public.
5. The OFT became aware of, and subsequently investigated, this transaction on its own-initiative through its Mergers Intelligence unit. The statutory deadline, as extended, by which the OFT must make a decision on reference in this case is 10 January 2010. The OFT's 40 day administrative deadline, as extended, expires on 8 January 2010.

## JURISDICTION

6. The transaction involved the transfer of employees (14 people [see endnote 2]) [ ].<sup>3,4</sup> The OFT considers these to form an enterprise within the meaning of section 129 of the Enterprise Act 2002 ('the Act'). Therefore, the OFT is satisfied that, as a result of the transaction, enterprises have ceased to be distinct.
7. Teacrate and GBN ('the parties') overlapped in the provision of crate rental and associated products to removal companies in Great Britain. Teacrate submitted it had a combined share of supply of [15-25] per cent, although it advised that this was a management estimate and there is no reliable market share data or market research reports available. A number of market participants, however, estimated the combined entity's share of supply to be much higher than 25 per cent. Further, based on Teacrate's estimate of the total value of these customers and its revenues derived from these customers, the OFT considers Teacrate's combined UK share of supply in the provision of crate hire and other services to removal companies to be in the region of [25-35] per cent.
8. In light of the above, the OFT considers the share of supply test in section 23 of the Act is met.
9. The OFT therefore believes that it is or may be the case that a relevant merger situation has been created.

---

<sup>3</sup> [ ].

<sup>4</sup> Crown retained the depots for its records management business.

## MARKET DEFINITION

### Product scope

10. Teacrate submitted that the relevant product market is the supply of packaging containers for use in domestic (supply to end users, including businesses) and commercial (supply to removal companies) removals. It was also possible, according to Teacrate, to further segment the market by:
  - type of packaging used (plastic crates or cardboard boxes)
  - type of customer (domestic and commercial)
  - industry (for example food and beverage customers, retail customers)
  - crate rental and crate sale, and
  - crates/cartons and other products (such as crate lifting and handling equipment, and packaging equipment).
11. Pre-merger GBN was not active in servicing food and beverage or retail customers and so the OFT has not further considered segmentation by industry. Each of the remaining segments is discussed below.
12. Market enquiries revealed that many customers require a full range of products and equipment (such as crate lifting and handling equipment), given the varied nature of removal jobs that they undertake. For example, even though removal companies may not consider cardboard cartons as substitutes for lidded plastic containers for some jobs, they do have a preference for using the same hire company for all their requirements and therefore looked for a supplier who could supply the full range of crates, cartons and associated products. On the supply-side, market enquiries revealed that companies do not specialise in the products they offer, but stock a wide selection. This suggests that offering the full range of products is a requisite condition for suppliers in the industry. That is, even if there is little substitutability between types of packaging and equipment (which is not clear), the 'one stop shop' nature of customer demand for packaging types and equipment means that it appears appropriate to aggregate the supply of all types of packaging and equipment into a single market.
13. In terms of segmenting the market by customer type, market enquiries revealed the major difference between removal companies and end users

was that the former tend to hire larger volumes of crates and other products. As such, they tend to receive volume discounts which means that they pay less on a 'per crate/per day' basis. However, Teacrate and a number of competitors told us that volume discounts are not specified by generic customer type and end users can and do negotiate such concessions. On this basis, sufficient price discrimination to warrant defining separate markets by customer type does not appear feasible. In any event, the OFT's analysis is unaffected by segmenting the market by customer group.

14. Lastly, in terms of rentals versus sales of crates (and other products) Teacrate submitted that GBN was not active in crate sales.<sup>5</sup> As the parties do not therefore overlap in crate sales, the OFT has examined the rental of crates only.<sup>6</sup>

#### Conclusion – product scope

15. As competition concerns do not arise on any narrowly-defined candidate market, the OFT has not found it necessary to conclude on the precise boundaries of the product market. Nonetheless, on the basis of the above, the OFT has assessed the effects of the merger in the market for the rental of packaging containers for domestic and commercial removals.

#### Geographic scope

16. Pre-merger, Teacrate and GBN serviced customers in England, Scotland and Wales but not Northern Ireland (that is, Great Britain).
17. Teacrate submitted that competition occurs primarily on a regional basis, since most crates are hired within 50 to 100 miles of a depot and tend to stay within the same local area or region.

---

<sup>5</sup> Although it recorded £[ ] of 'sales' in tea crates in 2008, these 'sales' were not actual sales but fines levied on customers who had lost hired crates.

<sup>6</sup> The OFT notes that in markets where durable products are rented as well as sold (such as crates) the stock of rented crates may constrain the pricing of new crates. This is because in durable goods markets (like crates) the price a seller of crates can charge is usually constrained by the availability of second-hand crates. If the seller of crates also rents them (partially eliminating the second-hand market) then this constraint may be lessened but generally will not be eliminated. Consequently, the OFT's starting presumption is that there is likely to be some competitive interaction between crate sales and crate rental (see, for example, paragraph 37).

18. On the demand side, some of the larger removal companies prefer to use only one supplier and demand a national presence (such as that offered by Teacrate and GBN). The reasons for this are logistical (it is easy to use and return crates from one supplier regardless of whether they have been moved to different parts of the country), financial (discounts are larger if all of a customer's demand is with one supplier) and reliability/volume-related (national suppliers tend to be able to better handle larger volumes and be more reliable).
19. Nevertheless, only a small number of customers told the OFT that having one supplier to provide a national service was essential, most said instead that it was viable for them to use multiple companies, or to use a company which sub-contracted out the work in one or more areas to a competitor.
20. In terms of pricing, market enquiries revealed that there were no significant variations between regions in Great Britain. Customers that prefer a Great Britain-wide presence told us that they negotiate on this basis and a single rate is set for the whole of Great Britain.
21. On the supply-side, the structure of the crate hire industry is suggestive of regional markets. Some competitors have numerous depots around Great Britain, while others have only one or two which primarily service only one or a few regions. Teacrate submitted that it advertises on a region-specific basis and has region-specific sales teams. On the other hand, a number of competitors claimed that they could service the whole of Great Britain from one depot. However, many companies offering a 'national' service to customers rely, to varying degrees, on other competitors to fulfil orders in areas where they do not have a physical geographic presence.

#### Conclusion – geographic scope

22. The OFT considers markets to be defined principally on the demand-side. In this respect, the evidence above is mixed: the ambit of crate supply appears regional yet there also appears to be national aspects to competition. Whether these national aspects are sufficient to make the geographic market Great Britain-wide is unclear. Nevertheless, as its competitive assessment is unaffected by the precise boundaries of the geographic market, the OFT has not found it necessary to conclude on

geographic market definition and has analysed the merger on both Great Britain-wide and regional bases.

## **HORIZONTAL ISSUES**

### **The Counterfactual**

23. In most cases, the OFT considers the prevailing conditions of competition to be the appropriate counterfactual. However, the OFT may sometimes need to take into account imminent changes in the structure of the market – such as where a firm is inevitably exiting – in order to reflect as accurately as possible the nature of competition without the merger.
24. Teacrate invited the OFT to consider GBN as a failing firm. Teacrate argued that following the loss of its largest customer, [ ], which accounted for [40-50] per cent of its revenues, Crown took the decision to sell GBN. Failing a sale of the business, Teacrate submitted that Crown would have wound up the GBN business.
25. In this case, given competition concerns do not arise in a counterfactual where the pre-merger market structure would have persisted, the OFT has not needed to conclude on whether GBN was failing. The loss of its major customer is relevant, however, to the assessment of the likely level of competitive constraint imposed by GBN post-merger going forward, and is considered later.

### **National competition**

26. Teacrate estimated that its own share of supply in the rental of crates and associated products to all customers is, post-merger, approximately [10-20] per cent (with an increment of around [0-5] per cent). When segmented by rentals to removal companies and end users, Teacrate estimated that it accounts for approximately [20-30] per cent of rentals to removal companies (with an increment of around [0-5] per cent) and around [0-10] per cent to end users (with an increment of approximately [0-5] per cent).
27. Teacrate submitted that it will continue to face competition from a number of large, well-resourced competitors post-merger, in particular

Pluscrates, Mastercrate, Easycrate and Crate Mate as well as a large number of smaller and regional players.

28. As noted earlier, third party market share estimates varied, with many putting Teacrate's market share at significantly higher than Teacrate's own estimates. Nevertheless, while Teacrate may have under-estimated its market share, third parties agreed with Teacrate's views on the existence and relevant strength of credible alternative suppliers. Market enquiries in this regard indicated that, pre-merger, Teacrate and Pluscrates were the two leading suppliers, clearly ahead of other suppliers such as GBN, Mastercrate, Easycrate, Crate Mate and cratehire.net.
29. Customers surveyed felt that they had sufficient choice going forward and the vast majority were not concerned by the merger. Examples were received, both from Teacrate and third parties, indicating that customers were able to effectively negotiate competitive prices with suppliers, even for comparatively small volumes of crates.
30. Internal Teacrate documents obtained by the OFT did, however, suggest that Teacrate had historically viewed GBN as its closest competitor. Nevertheless, third parties told the OFT that GBN had been in decline and, although a national supplier, was not offering effective competition to Teacrate immediately post-merger. This apparently resulted in GBN losing its largest customer, [ ], which represented approximately [40-50] per cent of its revenue and [40-50] per cent of its market share. In addition, customer feedback was that, prior to the merger, GBN's service levels and reliability had been suffering and a number of customers indicated they no longer considered it a viable choice.
31. Pricing analysis also showed that Teacrate's average prices were generally (although not always) lower than GBN's, and in some cases significantly so (although this may reflect the larger volumes which Teacrate's customers require which attract larger discounts). Although actual prices from the sample did vary considerably, a comparison of the merger parties' price lists revealed that some GBN products were up to four times more expensive to hire than Teacrate's. This appears consistent with third party views that GBN was not providing an effective competitive constraint on Teacrate pre-merger.

## **Conclusion – national competition**

32. In light of the above, the OFT considered Teacrate would continue to face substantial competition from the remaining competitors in the market post-merger. Further, although there is evidence suggesting Teacrate had historically viewed GBN as its closest competitor, the OFT considered that GBN's competitive constraint going forward was likely to be weak. As such, the OFT did not consider there to be a realistic prospect that competition concerns may arise on a national basis.

## **Regional level competition**

33. No market share estimates were received on any regional bases from either Teacrate or third parties.

34. At the regional level, Teacrate and GBN overlapped in:

- the Midlands (Birmingham)
- the South West (Bristol)
- the South East (London)
- Scotland (Glasgow/Livingston)
- the North East (Sunderland/Gateshead), and
- the North West (Manchester).<sup>7</sup>

35. In the Midlands, the South East and the North West, a significant number of both national and regional players have depots and no customer concerns were received. Market enquiries revealed that there are no minimum volumes or long term contracts which differentiate national from regional competitors in terms of the customers they service, and national competitors service national and local customers alike. Therefore, given the OFT has not found competition concerns arise on a national basis, the OFT considers competition issues do not arise in these regions.

## **Scotland**

36. In Scotland, Northern Crates (part of Pluscrates) has a depot in Livingston and Crate Hire Express has one in Edinburgh. Clockwork Crates, a relatively new national entrant, has recently opened six depots in

---

<sup>7</sup> Note that GBN's depots are not included in the assets being transferred to Teacrate.



Scotland. While the OFT notes that Mastercrate offers services in this region, market enquiries revealed that it achieves this coverage through using regional companies in the area.

37. Teacrate also submitted that some removal companies have their own stock of crates which they offer for hire, indicating that self-supply may be an option for some customers. This was confirmed by market enquiries.

### **The North East**

38. In the North East, Teacrate faces competition from Crate Hire Express (Newcastle) and some limited competition from Clockwork Crates (from its two depots on the Scottish borders). Teacrate may also face competition from Citicrate which is based in Leeds (around 100 miles away) although this has not been corroborated by third parties. As with Scotland, national providers such as Pluscrates [see endnote 1] and Mastercrate tend to service this area by sub-contracting companies with a presence here.

### **The South West and Wales**

39. The merger parties both had a depot in Bristol. Competitors active in the area include Crate Mate/Crate Hire Express (in Cardiff) and Stormova (in Swindon).
40. In addition, the evidence shows that national suppliers to be supplying crates in this region without the need to sub-contract to these regional players.

### **Barriers to entry and expansion**

41. A company wishing to enter the crate hire business requires a stock of crates, vehicles to deliver them and a depot. An IT system (to record and track orders) and advertising is also desirable. Teacrate submitted that there are no further material requirements, and market enquiries confirmed this.

42. At the regional level, there do not appear to be any significant economies of scale, as evidenced by the number of small, regional players in the market.
43. Recent, successful entry also suggests that barriers to entry are surmountable on a national scale. Pluscrates entered in late 2007 [ ]. Teacrate told the OFT that Pluscrates is now one of the major national players, a view supported by a number of market participants. Although Pluscrates' entry was part sponsored by two removal companies, this is an indication that successful, large-scale entry is viable on a national basis.
44. Another example of new entry in the past two years is that of Clockwork Crates, a removal company that offers crates for hire. Clockwork Crates has 17 depots throughout Great Britain, including six in Scotland, where it has recently expanded.
45. Finally, Teacrate submitted that self-supply was a viable option for removal companies. Evidence was mixed on this point, although there was some evidence to suggest that, for some customers, this was a potential strategy. Indeed, Clockwork Crates was originally just a removal company and therefore its expansion into crate hire is an example of a removal company self-supplying (as well as conducting merchant supply).
46. In summary, and in light of recent entry on a national scale, the OFT considered barriers to entry in the supply of crate hire to be relatively low, and that sponsored entry and entry by removal companies themselves (which is also a type of self-supply), in particular, were viable strategies.

#### **Conclusion – regional competition**

47. Teacrate will continue to face competition from several sources in all regions. While the number of suppliers is more limited in certain regions than in others, no third parties raised concerns about the merger in any of these regions, and those surveyed there indicated they had sufficient choice of suppliers and did not expect any adverse effects from the merger. In addition, barriers to entry appear to be relatively low, with recent examples of successful new entry at a national level.

48. Finally, the evidence before the OFT casts doubt on GBN's ability to impose an effective competitive constraint going forward. In light of all these factors, the OFT considered that competition concerns do not arise as a result of the merger at a regional level.

### **THIRD PARTY VIEWS**

49. Third party views are referred to above where appropriate. However, in general, the vast majority of third parties contacted were not concerned by the merger.
50. Customers generally told the OFT that there is considerable choice available at both the regional and national level and this will remain post merger. Customers also told the OFT that they did not view GBN as an especially close competitor to Teacrate as GBN did not offer the same standard of service and reliability. There was wide-spread recognition of the fact that GBN was in decline pre-merger.
51. Two customers considered that they possess buyer power in respect of crate rental companies, although the extent to which this buyer power protected smaller customers was unclear.

### **ASSESSMENT**

52. Teacrate and GBN were both crate rental companies with locations throughout Great Britain who competed to supply crate rental and related services to both removal companies and end-users throughout Great Britain.
53. Internal Teacrate documents indicated that Teacrate had historically considered GBN to be its closest competitor. Nevertheless, the evidence before the OFT indicated that the competitive constraint imposed by GBN had diminished significantly by the time of the merger. Pricing analysis also revealed that GBN's average prices tended to be higher – and for some products, significantly higher – than Teacrate's, and a number of customers noted a decline in GBN's service levels and reliability.

54. Going forward, market enquiries revealed that Teacrate is likely to face competition – at both the national and regional levels – from several sources. A number of competitors offer a national service to their customers, and Teacrate provided recent examples of these competitors winning national business ahead of Teacrate. There are also numerous local competitors present in each of the areas in which Teacrate and GBN overlapped on a regional basis. Customers surveyed also indicated that they are able to negotiate competitive prices with suppliers.
55. In Scotland, the North East and the South West, the merger represents an increase in the concentration of specialist crate hire companies. Nevertheless, the OFT was satisfied that there was no realistic chance of competition concerns arising, for a number of reasons. First, no concerns were raised by market participants in these regions, with customers considering they had sufficient choice. Second, barriers to entry and expansion in these areas appear relatively low and there are recent examples of entry and expansion in each of these areas. Third, and finally, GBN's decline pre-merger meant that it was likely to only be a weak competitive constraint going forward that is, the merger removed only a weak competitor.
56. In light of the above, the OFT did not consider there to be a realistic prospect that the merger may result in a substantial lessening of the competition in any plausible candidate market in the UK.

## **DECISION**

57. This merger will therefore **not be referred** to the Competition Commission under section 22(1) of the Act.

## **ENDNOTES**

- I Pluscrates subsequently informed the OFT that it services the North East with its own fleet.
- II Teacrate subsequently informed the OFT that the transaction involved the transfer of 18 people.