

## **ANTICIPATED ACQUISITION BY DFS FURNITURE PLC OF SOFOLGY LIMITED**

### **DECISION ON RELEVANT MERGER SITUATION AND SUBSTANTIAL LESSENING OF COMPETITION**

**ME/6706-17**

The CMA's decision on reference under section 33(1) of the Enterprise Act 2002 given on 20 November 2017. Full text of the decision published on 15 December 2017.

**Please note that [X] indicates figures or text which have been deleted or replaced in ranges at the request of the parties for reasons of commercial confidentiality.**

#### **SUMMARY**

1. DFS Furniture plc (through its wholly owned subsidiary DFS Furniture Company Limited) (**DFS**) has agreed to acquire Sofology Limited (**Sofology**) (the **Merger**). DFS and Sofology are together referred to as the **Parties**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that the Parties will cease to be distinct as a result of the Merger, that the turnover test is met and that, accordingly, arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
3. The Parties overlap in the retail supply of upholstered living room furniture in bricks-and-mortar stores and online across the UK.
4. The CMA believes that online sales exercise some constraint on the bricks-and-mortar sales of upholstered living room furniture, although there may be limits to the competitive interaction between these two distribution channels. The CMA therefore considered competition between bricks-and-mortar retailers and competition between online retailers, both together and separately.

5. With regard to bricks-and-mortar competition, as the CMA could not rule out that the Parties vary some aspects of their competitive offering locally, the CMA assessed the effects of the Merger in the local areas where the Parties' stores overlap. With regard to online competition, and combined online/bricks-and-mortar competition, the CMA assessed the effects of the Merger nationally.
6. To conduct its local assessment, the CMA undertook an initial filtering exercise to screen out overlap areas which were unlikely to raise competition concerns. The CMA identified four local areas which required further consideration.
7. On the basis of the available evidence, the CMA believes that there will be sufficient competitive constraints post-Merger within each local area to ensure that no competition concerns arise from the loss of competition between DFS' and Sofology's bricks-and-mortar stores. The CMA therefore believes that the Merger does not give rise to a realistic prospect of a substantial lessening of competition (**SLC**) in the supply of upholstered living room furniture in any local area.
8. To conduct its national assessment, the CMA considered: (i) the aggregated impact of the Merger based on its local assessment; the Parties' combined shares of supply on a national basis in terms of (ii) bricks-and-mortar and online sales; and (iii) online sales only. Given the CMA's conclusions in each local area where the Parties overlap and the Parties' shares of supply across the UK, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC in the supply of upholstered living room furniture nationally in the UK.
9. For these reasons, the Merger will therefore **not be referred** under section 33(1) of the Enterprise Act 2002 (the **Act**).

## **ASSESSMENT**

### **Parties**

10. DFS is a retailer of living room furniture comprising upholstered furniture, coffee/side/occasional tables, and cupboards, shelves and storage both in bricks-and-mortar stores and online. DFS supplies these products through a number of different brands in the UK, namely: DFS, Dwell and Sofa Workshop. It operates 110 DFS stores, 32 Dwell stores and 20 Sofa

Workshop stores across the UK.<sup>1</sup> The turnover of DFS in the financial year ending 30 July 2017 was around £[~~9~~] million in the UK.

11. Sofology is a retailer of upholstered living room furniture in bricks-and-mortar stores and online. Sofology operates 38 stores under its Sofology brand across the UK. The turnover of Sofology in the financial year ending 31 December 2016 was £143 million in the UK.

### **Transaction**

12. The Transaction involves the acquisition by DFS of 100% of Sofology's share capital.
13. The Merger has not been reviewed by any competition authorities other than the CMA.

### **Jurisdiction**

14. As a result of the Merger, the enterprises of DFS and Sofology will cease to be distinct.
15. The UK turnover of Sofology exceeds £70 million, so the turnover test in section 23(1)(b) of the Act is satisfied.
16. The CMA therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
17. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 3 October 2017 and the statutory 40 working day deadline for a decision is therefore 27 November 2017.

### **Counterfactual**

18. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For anticipated mergers, the CMA generally adopts the prevailing conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, it believes that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is

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<sup>1</sup> Some Dwell and Sofa Workshop stores are co-located with a DFS store, so the total number of stores that DFS operates is smaller than the sum of the number of stores for each fascia.

a realistic prospect of a counterfactual that is more competitive than these conditions.<sup>2</sup>

19. DFS and Sofology submitted that the relevant counterfactual is the current competitive situation. The CMA has not received any evidence to suggest otherwise.
20. The CMA therefore believes the prevailing conditions of competition to be the relevant counterfactual.

## **Background**

21. The Parties overlap in the retail supply of upholstered living room furniture in the UK through bricks-and-mortar stores and online.
22. Both DFS-branded stores and Sofology's stores are typically found in retail parks with good connections to nearby road infrastructure. DFS's Sofa Workshop and Dwell stores are typically found in town/city centres.

## **Retailers**

23. Evidence from the CMA's investigation indicates that purchasers of upholstered living room furniture are able to choose from a wide range of retailers across the UK. These include:
  - (a) Several large living room furniture retailers, such as Furniture Village, Harvey's, and ScS. These retailers have together over 350 stores and in 2016, representing around 20% of the UK upholstery market.<sup>3</sup>
  - (b) Many large general "home" product retailers, such as: IKEA, Argos, Laura Ashley, Next, John Lewis, Marks & Spencer and Dunelm. In 2016, these retailers represented at least another 12.5% of the upholstery market.<sup>4</sup>
  - (c) Supermarkets (some of which have developed entirely separate "Home" formats, for example ASDA Living).

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2 Merger Assessment Guidelines (OFT1254/CC2), September 2010, from paragraph 4.3.5. The Merger Assessment Guidelines have been adopted by the CMA (see Mergers: Guidance on the CMA's jurisdiction and procedure (CMA2), January 2014, Annex D).

3 Source: GlobalData (May 2017), Top 10 upholstery market shares (both delivery inclusive and exclusive), 2012-17e.

4 Ibid.

- (d) Independent upholstered furniture retailers. While the CMA did not receive direct evidence on their share of supply in the UK upholstery market, in the wider furniture market these independent specialists make up approximately 71% of the market.<sup>5</sup>
- (e) A large number of online retailers specialising in upholstered living room furniture, such as: Swoon, Made.com, sofa.com, Loaf, Maisons du Monde and Wayfair. In the wider furniture market, online sales make up approximately 12.9% of the market.<sup>6</sup>
- (f) Large generalist online retailers with significant and growing upholstered furniture offerings, such as Amazon and eBay.

### **Trends in shopping habits**

24. Evidence available to the CMA indicates that customers' purchasing behaviour for living room furniture increasingly involves pre-purchase online research and/or purchase from an online supplier. Independent market research shows that customers frequently research possible product choices online to narrow down their preferences and ascertain prices. For example, Verdict noted that, in May 2016, 66.3% of shoppers conducted pre-purchase research online, an increase of 1.7% on January 2016.<sup>7</sup> Alternatively, some customers visit a store to assess a product but then purchase it online. Consumer data from 2016 shows that 26.3% of upholstery shoppers who researched in store, bought online.<sup>8</sup> More generally, the proportion of purchases of upholstered furniture made online is going up, with 12.9% of upholstered furniture sales in 2016 being made online.<sup>9</sup>
25. Many retailers are seeking to match customers' growing omni-channel behaviour, with all the large traditional bricks and mortar retailers, such as the Parties, Furniture Village, Harvey's and ScS investing in their websites to capitalise on customers increasing confidence to purchase online, and former online specialists such as Loaf.com opening some showrooms.<sup>10</sup>
26. The CMA has considered the implications of these trends in its assessment.

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<sup>5</sup> Source: Mintel (July 2016), Furniture Retailing, p. 13.

<sup>6</sup> GlobalData Living Room Furniture Market Report 2016.

<sup>7</sup> Verdict Home Retail Series, Living Room Furniture, July 2016, page 7.

<sup>8</sup> Verdict Home Retail Series, Living Room Furniture, July 2016, page 13.

<sup>9</sup> GlobalData Living Room Furniture Market Report 2016.

<sup>10</sup> Verdict Home Retail series, Living Room Furniture, July 2016, pages 13 and 14.

## Frame of reference

27. Market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the merger, as it is recognised that there can be constraints on merging parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.<sup>11</sup>

## Product scope

28. As noted above, upholstered living room furniture is part of a wider segment of living room furniture and is sold both through bricks-and-mortar stores and online. Therefore, the CMA considered the extent to which it is appropriate for the purposes of determining the frames of reference in which to assess the Merger to distinguish between these product types and sales channels.

### *Product type - living room furniture vs upholstered living room furniture*

29. The Parties submitted that the relevant product market comprises the retail supply of living room furniture. The Parties submitted that this market is comprised of three segments: upholstered furniture (sofas, sofas, armchairs, recliners and footstools); coffee / side / occasional tables; and cupboards, shelves and storage. The Parties noted that, from a demand-side perspective, whilst there are differences between these three segments (ie a coffee table is not substitutable with a sofa), customers often purchase furniture for the whole living room at the same time. Third party market reports state that 68% of UK customers feel that being able to buy related living room products from the same retailer is either “important” or “very important”.<sup>12</sup>
30. However, the CMA notes that the narrowest and, in this case, most conservative, product frame of reference in which the Parties overlap is the supply of upholstered living room furniture. The CMA notes both the lack of demand-side substitution between different pieces of living room furniture and the varying focus of different retailers which gives rise to different conditions of competition between the different segments.
31. Therefore, the CMA has assessed the impact of the Merger in the retail supply of upholstered living room furniture. However, as no concerns arise on

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<sup>11</sup> Merger Assessment Guidelines, paragraph 5.2.2.

<sup>12</sup> Verdict research and insight in 2015, page 19.

this most conservative basis, the CMA has not found it necessary to conclude on this frame of reference.

#### *Sales channel - bricks-and-mortar vs online sales*

32. The CMA assessed the strength of the constraint on bricks-and-mortar sales from online sales by reviewing internal documents, considering third party views, and weighing evidence from independent customer surveys.

#### *Parties' submissions*

33. The Parties submitted that they are growing their [REDACTED], with the same prices available online<sup>13</sup> and in-store, and that online retailers are an important constraint on their bricks-and-mortar sales.
34. On the other hand, the Parties noted that some customers value the expert service available in-store, and therefore that online-only retailers may not be an attractive alternative for these customers. For example, the Parties noted that some specialist online retailers have now established bricks-and-mortar stores in order to reach a wider set of customers.

#### *Internal documents*

35. The CMA reviewed internal documents from the Parties to help understand how retailers perceive the interaction between different channels and how it affects business decisions.<sup>14</sup>
36. The CMA noted that the Parties' internal documents consistently reference both bricks-and-mortar and online-only competitors. By way of example:
- (a) DFS' business plans refer to growth being driven by [REDACTED];
  - (b) DFS' business plans and internal market update reports refer to both bricks and mortar and online competitors in the context of the competitive environment; and
  - (c) Sofology tracks online activity, including both online-only stores and bricks-and-mortar stores. Sofology's competitor pricing analysis shows that it regularly tracks the range and price of both [REDACTED] and [REDACTED].

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<sup>13</sup> The Parties included [REDACTED].

<sup>14</sup> *Retail mergers commentary* (CMA62), April 2017, paragraph 4.8

37. However, whilst the internal documents demonstrate that the Parties are monitoring online competitors, it is unclear to what extent this informs business decisions (ie on price, quality, range or service), which may still be primarily informed by the monitoring of bricks-and-mortar competitors.

#### *Third parties*

38. The majority of competitors who responded to the CMA's merger investigation said that they price their products the same between bricks-and-mortar and online. Some of the Parties' competitors noted that customers already shop online for upholstered living room furniture and that online sales are increasing. On the other hand, some competitors noted that customers also value the convenience of comparing prices, product ranges and quality between bricks-and-mortar retailers located in the same retail park.
39. A number of online-only retailers who responded to the CMA's investigation stated that they compete effectively with the Parties in relation to the supply of upholstered living room furniture.

#### *Customer surveys*

40. As discussed in paragraph 24, the Parties submitted a survey, which showed that 66.3% of furniture customers conducted pre-purchase online research. Mintel also noted that a customer's journey may begin in-store to experience a product but they may subsequently transact online.<sup>15</sup>
41. Surveys carried out by independent third parties on behalf of DFS in March 2017 show that online upholstery sales were close to ~~3~~% of total sales (by volume), and that the majority of these purchases are made by customers who do not visit the bricks and mortar store of the retailer from which they purchase.<sup>16</sup> The CMA notes that this evidence could suggest a migration of customers over time from bricks-and-mortar stores to online rather than substitutability.

#### *Conclusion on bricks-and-mortar vs online sales*

42. As noted above, the evidence submitted by the Parties and third parties is consistent with the online channel representing a significant constraint on bricks-and-mortar stores. However, there is also evidence to suggest that

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<sup>15</sup> Mintel Furniture Retailing Report, UK, July 2016.

<sup>16</sup> [blank]



some customers only consider bricks-and-mortar stores, while other customers only consider purchasing online, indicating limited substitutability.

43. Therefore, the CMA has assessed the Merger within both the individual frames of reference by channel (in each case also considering 'out-of-market' constraints) and across both channels together.

#### *Conclusion on product scope*

44. For the reasons set out above, and on a cautious basis, the CMA has assessed the Merger within the following product frames of reference:
- (i) the retail supply of upholstered living room furniture in individual bricks-and mortar stores;
  - (ii) the online retail supply of upholstered living room furniture; and
  - (iii) the retail supply of upholstered living room furniture across both bricks-and-mortar and online channels.
45. However, it was not necessary for the CMA to reach a conclusion on the product frame of reference, since, as set out below, no competition concerns arise on any plausible basis.

### **Geographic scope**

#### *Bricks-and-mortar channel*

##### *National vs local competition*

46. The Parties submitted that the relevant geographic market for the retail supply of living room furniture is national on the basis that “*all parameters of competition are set centrally and there is no flexing of any parameter of competition at a local level in response to local competitive conditions.*” For example, both Parties have a [X]. Similarly, neither [X],<sup>17</sup> and ranges are [X] or, in the case of Sofology, the [X] rather than local competition.
47. However, the CMA’s starting point in retail cases involving bricks-and-mortar stores is that customers shop locally, within a given travel time of their home

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<sup>17</sup> With the exception of externally imposed conditions, for example, where a retail park closes at a particular time in Scotland where Sunday trading hours have been liberalised.

or work. For this reason, the CMA's starting assumption is that there will be material local competition on one or more aspects of the retail offer.<sup>18</sup>

48. In this context, even if, pre-Merger, the Parties did not often depart from the parameters set centrally for the majority of the elements of their offerings, the aggregate loss of competition resulting from the Merger in some local areas may create an incentive to flex some aspects of the retail offer locally or to deteriorate some aspects of their offering at all stores nationally.
49. However, since no competition concerns arise in any local area, or on a national basis, the CMA has not found it necessary to conclude on to what extent parameters of competition are set centrally or locally in this case.

*Methodology for determining scope of local frames of reference*

50. The Parties initially submitted a local analysis based on site-specific catchment areas. The Parties identified each catchment area as the area within which 80% of that store's customers are located, based on drive-time and straight-line distances.<sup>19</sup>
51. The CMA considers that individual catchment areas are not appropriate in this case because the catchment areas defined may not reflect customers' underlying willingness to travel to purchase upholstered living room furniture.<sup>20</sup> For this reason, the CMA has a preference for the use of average catchment areas by retailer, distinguishing only between urban and rural stores.
52. In order to determine the appropriate size of the catchment areas for the purpose of conducting its local analysis, the CMA considered evidence from the Parties' submissions, the Parties' internal documents, and from third parties.
53. Based on the catchment areas that the Parties provided for each of their stores, the CMA calculated that, on average, an 80% catchment area (ie a catchment area covering 80% of a store's customers) is:

(a) [X] minutes' drive time for an urban DFS store,<sup>21</sup>

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<sup>18</sup> *Retail mergers commentary* (CMA62), April 2017, chapter 1.

<sup>19</sup> Since all of the Parties' sales are delivered, the Parties hold good data on customer locations.

<sup>20</sup> *Retail mergers commentary* (CMA62), April 2017, paragraph 2.21-2.22.

<sup>21</sup> As a cross-check, the CMA has also calculated individual catchment area sizes for the different DFS fasciae. However, since the results of this analysis did not affect our conclusions, these results are not presented.

(b) [X] minutes' drive time for a rural DFS store, and

(c) [X] minutes' drive time for a Sofology store.<sup>22</sup>

54. The Parties' competitors confirmed that proximity, particularly co-location in retail parks, is a significant parameter of competition. This is because retail parks with a strong furniture store offering would be more likely to be considered as a destination for customers.
55. In keeping with the CMA's established practice, the catchment area does not determine the CMA's competitive assessment in any mechanistic way. In particular, the CMA has considered constraints from outside the boundaries of the catchment areas where appropriate, as well as the location of stores relative to each other within the catchment area.

### Online channel

56. Because the effects of online retailing apply equally in all local areas in this case, the CMA considers that the appropriate geographic frame of reference in which to assess the impact of the Merger both in the online-only channel and the combined online and bricks-and-mortar is national.
57. The Parties estimated that they have a combined share of [20-30]%, with an increment of [0-10]%, in the supply of online-only retailing of upholstered living room furniture in the UK.<sup>23</sup> Similarly, the Parties estimated that they have a combined share of [30-40]%, with an increment of [0-10]%, in the supply of upholstered living room furniture through either bricks-and-mortar stores or online in the UK.<sup>24</sup>
58. The CMA notes that, in a frame of reference including online sales, the Parties compete against their bricks-and-mortar competitors and many online-specialists such as Made.com, Sofa.com, Shop Direct, Argos, Amazon and eBay. The CMA also notes that it found that the Parties do not compete particularly closely and are constrained by a wide range of other retailers (see paragraph 71).
59. On the basis of this evidence, the CMA does not believe that the Merger raises competition concerns in either the online-only channel or in the

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<sup>22</sup> The CMA has not made the distinction between urban and rural Sofology stores because the relatively low number of rural Sofology stores made it impossible to do so robustly.

<sup>23</sup> Based on the Parties' own online sales and an independent estimate of the size of the online market taken from GlobalData Living Room Furniture Market Report 2016.

<sup>24</sup> Source: GlobalData (May 2017), Top 10 upholstery market shares (both delivery inclusive and exclusive), 2012-17e. These figures are based on revenue excluding delivery costs.

combined bricks-and-mortar and online channels. Therefore, it does not discuss these channels further.

### *Conclusion on geographic scope*

60. For the reasons set out above, the CMA has assessed the Merger within the following geographic frames of reference:
- (a) at a local level for bricks-and-mortar retail supply, based on drive-time isochrones around each of the Parties' bricks-and-mortar stores, as set out in paragraph 53 above; and
  - (b) at a national level for each of (i) online-only supply, and (ii) combined online and bricks-and-mortar retail supply, though the CMA has found no competition concerns in these frames of reference (see paragraph 59).
61. However, it was not necessary for the CMA to reach a conclusion on the geographic frame of reference, since, no competition concerns arise on any plausible basis.

## **Competitive Assessment**

### **Horizontal unilateral effects**

62. Horizontal unilateral effects may arise when one firm merges with a firm that previously provided a competitive constraint, allowing the merged firm to profitably raise prices or degrade quality on its own and without needing to coordinate with its rivals.<sup>25</sup> Horizontal unilateral effects are more likely when the merger parties are close competitors.
63. The CMA assessed whether it is or may be the case that the Merger may be expected to result in an SLC in relation to horizontal unilateral effects in the supply of upholstered living room furniture in any local area where the Parties' stores overlap.

### *Supply of upholstered living room furniture in bricks-and-mortar stores*

#### *Filtering*

64. As explained in paragraph 53, the CMA identified local overlaps between the Parties' bricks-and-mortar stores based on average urban or rural 80% drive-

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<sup>25</sup> [Merger Assessment Guidelines](#), from paragraph 5.4.1.

time isochrones. The CMA found that there are 61 DFS stores that have one or more Sofology stores within their catchment area, and 41 Sofology stores that have one or more DFS stores within their catchment area.

65. The CMA then employed a filtering methodology to screen out those overlap areas which were unlikely to raise competition concerns. This allowed the CMA to focus on the remaining overlap areas, which were each analysed in more detail.
66. The CMA's filtering methodology first determined, on a cautious basis, a set of effective competitors to the Parties. These are competitors whose presence, in sufficient numbers in a particular local area post-Merger, would indicate that the Merger would not lead to an SLC, without the need for further assessment of the local conditions of competition.
67. Given the cautious basis on which the CMA identified the effective competitor set (see below), the CMA judged that only those areas where the Merger would lead to a reduction in alternative effective competitors to three or fewer warranted further scrutiny.

#### *The effective competitor set*

68. The Parties used an effective competitor set comprising ScS, IKEA, Harveys, Next Home, Furniture Village, SofaStore, John Lewis, and Marks & Spencer. However, the Parties submitted that this "artificial competitor set" was very conservative as it excluded all other furniture retailers, including all independent furniture stores, and purchases from significant general retailers such as Barker & Stonehouse, House of Fraser, Argos, Asda, B&Q and Laura Ashley. The Parties added that independent furniture retailers represent a significant competitive constraint in all local areas of the UK.
69. Evidence available to the CMA from its market testing and the Parties' submissions indicated that, in addition to location, upholstered living room furniture retailers compete to a greater or lesser extent on price, range, quality and additional services such as delivery and credit terms. In determining which third parties (whether national or independent retailers) pose an effective competitive constraint on the Parties in the supply of upholstered living room furniture, the CMA considered evidence on these factors from:
  - (a) the Parties' internal documents;
  - (b) third party views;
  - (c) third party market reports and commentary; and

(d) desk research conducted by the CMA.

70. In particular, the CMA considered: (i) evidence of competitor monitoring; (ii) evidence of differentiation in offerings; and (iii) evidence on revenues, both overall and how they varied by store and across different price points.
71. As noted in further detail below, this evidence indicated that the Parties do not compete particularly closely and are each constrained by a range of retailers in the supply of upholstered living room furniture across the UK.

*Internal documents – monitoring*

72. The Parties consistently identified each other as competitors in their internal documents across the product category. However, the Parties also consistently identified a number of other competitors. Moreover, various internal documents indicated that each of the Parties consider itself to compete more closely with other suppliers with respect to eg price and product range. For example, DFS' internal documents specified that its strong promotional offerings and made-to-order propositions compete mainly with [REDACTED] and [REDACTED], while its Sofa Workshop brand competes mainly with [REDACTED] and [REDACTED] due to its premium and bespoke ranges at typically higher price points. Sofology's internal documents indicated that it competes more closely with [REDACTED] than with any of the DFS brands, and that it price monitors and matches against a wide and diverse range of retailers for upholstered living room furniture, including [REDACTED].
73. Overall, the Parties' internal documents indicate that the Parties each actively monitor over [REDACTED] retailers of upholstered living room furniture, including online retailers and independent retailers, with regards to price, product offerings, promotions, brand awareness and market shares. Retailers actively monitored by one or both of the Parties include [REDACTED].

*Differentiation in offering/range*

74. The evidence available from third parties and market reports indicates that there is some differentiation between the Parties' retail propositions.
75. DFS focuses on styles that have a broad/mass appeal, and its products are made to order. This typically appeals to older, more traditional customers. The focus on selling made-to-order products means that DFS does not hold any stock and has longer lead times, typically 4-12 weeks to delivery. DFS also sells branded products, similar to ScS, Harveys and John Lewis.

76. By contrast, and similar to retailers such as Next Home and John Lewis, Sofology focuses on design-led styles, which tend to appeal to younger, more fashion-conscious customers. Their products have short lead times, appealing to those for whom convenience is a priority, even offering express delivery within 72 hours on some items. Sofology's products are all unbranded.
77. Although the CMA notes the scope for differentiation, most retailers offer a number of different styles. For this reason the CMA found that all of the following retailers sell a broadly similar range of sofas as the Parties: Harveys, ScS, Next Home, John Lewis, IKEA, Made.com and Multiyork.

#### *Range and price points*

78. The Parties submitted that their median sales fell within £[REDACTED] to £[REDACTED]. Evidence available on revenues nationally, by store and across price points, indicates that Oak Furniture Land, Harveys, Marks and Spencer and ScS have comparable offerings in terms of range and price to the Parties.

#### *Conclusions on the effective competitor set*

79. The CMA believes that this evidence indicates that the Parties are not each other's closest competitor nationally and that they are constrained by a large number of different retailers, some of which only operate online and some of which have a primary focus which is not upholstered living room furniture.
80. However, taking a cautious approach, the CMA has only considered a rival an effective competitor for the purposes of its filtering where there was consistent evidence from a range of sources that it competes closely with the Parties across (i) a range of relevant competitive parameters and (ii) a number of local areas without significant variation in their proposition.
81. On that basis, the third parties that the CMA identified as effective competitors for the purposes of its filtering are Harveys, ScS, IKEA, John Lewis and Next Home. As noted above, all these competitors have comparable offerings in upholstered living room furniture, with significant revenues from ranges at similar price points.<sup>26</sup> The CMA has not included other rivals in its filtering exercise; however, in light of the strong evidence of constraint from these retailers, the CMA has considered them within its more detailed local assessment below.

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<sup>26</sup> The CMA noted how the Parties both monitor [REDACTED] but, on a cautious basis, it excluded this rival from the effective competitor set as, while it has activities in upholstered living room furniture, its primary focus is on other types of furniture, and its revenues from the sale of upholstery per store are substantially smaller than those of the Parties and the competitors included in the effective competitor set.

### *The CMA's local analysis*

82. The CMA identified 42 DFS-centred catchment areas in which there were three or fewer effective competitors to the Parties remaining post-Merger and 28 Sofology-centred areas.

#### *Areas with two or fewer effective competitors to the Parties*

83. The CMA considered closely four areas where there were two or fewer effective competitors remaining post-Merger: Colne, Stoke-on-Trent, Lincoln and Doncaster/Carcroft. The CMA conducted detailed analysis in these areas, by reference to:

- (a) maps of the local areas;
- (b) drive-times between the Parties' stores and from the Parties to their competitors, including locations on retail parks (since, as indicated by the CMA's market testing, location on a retail park may make a store more attractive due to its co-location with other stores); and
- (c) locations and identities of independent upholstered furniture retailers, and evidence relating to those independents.

84. The CMA's assessment of each of these four local areas is set out below.

- *Colne*

85. In Colne, the filtering analysis indicated that there would be one effective competitor remaining post-Merger in the DFS catchment area.
86. The CMA notes that there is a substantial distance between the Parties' stores in this area. DFS is located in Colne, where no other furniture stores are present, whilst Sofology is on the edge of the DFS catchment area (over 15 minutes away) in Blackburn. This suggests that the Parties are not close competitors. Additionally, there is an ScS store located near Sofology, with a further 2 effective competitors in Sofology's catchment area.
87. In addition, the available evidence from third parties and the CMA's research indicates that the Parties will continue to be constrained in this area by:
- (a) the IKEA store in Manchester. This is located 45 minutes drive from the DFS store in Colne but the evidence available to the CMA indicates that customers travel further to visit this IKEA store than they do to visit the DFS store in Colne.



(b) At least three independent furniture retailers with similar propositions to the Parties in the local area.

88. For these reasons, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC in relation to upholstered living room furniture in the local area of Colne.

- *Stoke-on-Trent*

89. In Stoke, the filtering analysis indicated that there would be two effective competitors remaining post-Merger in the catchment areas around both Parties' stores.

90. While the Parties' stores appear to be competing closely based on location, as they are located on the same retail park, the evidence available to the CMA indicates that the Parties will continue to be constrained by:

(a) A Next with a large home department located a walking distance from the Parties' stores.

(b) Harveys and ScS, which although not present in the same retail park, are only a short drive away.

(c) An Alan Ward store and an AHF store, two independent upholstered living room furniture retailers located a 10-minute drive from the Parties' stores, which based on the CMA's desk research have a comparable proposition to the Parties.

(d) Some retailers outside of the catchment areas (eg in nearby Birmingham, which although further, has retail parks/shopping centres with several upholstered furniture retailers).

91. For these reasons, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC in relation to upholstered living room furniture in the local area of Stoke-on-Trent.

- *Lincoln*

92. In Lincoln, the filtering analysis indicated that there would be two effective competitors remaining post-Merger in the catchment areas around both Parties' stores.

93. The CMA found that the Parties' stores are within each other's catchment area but not on the same retail park. In contrast, Harveys and Next Home are both on the same retail park as the DFS store. In between the Parties' stores,

the CMA found there to be several alternative competitors, such as ScS and Oak Furniture Land. In addition, the CMA noted the option for consumers of travelling slightly further outside of the catchment area to Sheffield or Nottingham (each around an hour away), which have retail parks/shopping centres with several upholstered furniture retailers.

94. For these reasons, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC in relation to upholstered living room furniture in the local area of Lincoln.

- *Doncaster/Carcroft*

95. In Doncaster and Carcroft, the filtering analysis indicated that there would be two effective competitors remaining post-Merger in the catchment areas around both Parties' stores.

96. The CMA notes that the Parties' stores are around 15 minutes apart, and in the case of the Sofology store in Doncaster, there is significant competition from geographically closer competitors, including a Harveys store and a number of independent furniture retailers located on the same retail park. In addition, the CMA noted the option of travelling slightly further outside of the catchment area to Sheffield or Leeds (each around 45 to 60 minutes away), which have retail parks/shopping centres with several upholstered furniture retailers.

97. For these reasons, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC in relation to upholstered living room furniture in the local area of Doncaster/Carcroft.

*Areas with three effective competitors to the Parties remaining*

98. The CMA also considered the areas where there were three effective competitors remaining post-Merger. The CMA noted that, in each area where two or fewer effective competitors remained post-Merger, the CMA had found other local competitors, including independent retailers (see paragraphs 83 to 97), and had found no competition concerns. For this reason, and given the many options for consumers, including independent retailers, retailers with a wider offering which included upholstered living room furniture, and online-only retailers, the CMA was able to exclude a realistic prospect of an SLC in all these areas too.

### *Conclusion on horizontal unilateral effects*

99. As set out above, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the supply of upholstered living room furniture in bricks and mortar stores in any local area of the UK.

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

100. Entry, or expansion of existing firms, can mitigate the initial effect of a merger on competition and, in some cases, may mean that there is no SLC.
101. However, the CMA has not had to conclude on barriers to entry or expansion as the Merger does not give rise to competition concerns on any basis.

### **Decision**

102. Consequently, the CMA does not believe that it is or may be the case that the Merger may be expected to result in an SLC within a market or markets in the UK.
103. The Merger will therefore **not be referred** under section 33(1) of the Act.

**Andrew Wright**  
**Director, Mergers, Markets and Mergers Support**  
**Competition and Markets Authority**  
**20 November 2017**

### **ENDNOTES**

At paragraph 10, DFS' turnover in the financial year ending 30 July 2017 was £736.6 million.

At paragraph 22, it should read that 'the majority of DFS' Dwell stores are co-located with DFS stores' instead of 'DFS' Sofa Workshop and Dwell stores are typically found in town/city centres'.

At paragraph 81, Furniture Village was also part of the effective competitor set.