

Completed acquisition by Hunter Douglas UK Limited of Bellotto Holdings Limited

Decision on relevant merger situation and substantial lessening of competition

ME/6702-17

The CMA's decision on reference under section 22(1) of the Enterprise Act 2002 given on 5 December 2017. Full text of the decision published on 15 January 2018.

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.

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SUMMARY

1. On 17 July 2017, Hunter Douglas UK Limited (**HD**) acquired Bellotto Holdings Limited (**Hillarys**) (the **Merger**). HD and Hillarys 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' enterprises have ceased to be distinct and that the turnover test is met. The four-month period for a decision, as extended, ends on 19 January 2018. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
3. The Parties overlap in the wholesale and retail supply of made-to-measure (**M2M**) assembled blinds and shutters in the UK. They also overlap in the wholesale supply of components and materials for blinds, the wholesale and retail supply of curtains and the wholesale supply of awnings.
4. The CMA did not identify prima facie competition concerns with regard to the supply of components and materials for blinds, curtains or awnings given the limited overlap between the Parties, their limited combined share of supply and the presence of a large number of alternative suppliers. The CMA focussed its investigation on the wholesale and retail supply of M2M assembled blinds and shutters in the UK.
5. The CMA found limited demand-side substitutability between different types of window coverings and different sales channels. Therefore, it assessed the impact of the merger on:
 - (a) the wholesale supply of M2M blinds in the UK;
 - (b) the wholesale supply of shutters in the UK;
 - (c) the retail supply in-home of M2M blinds in the UK;
 - (d) the retail supply online of M2M blinds in the UK;
 - (e) the retail supply in-home of shutters in the UK; and

- (f) the retail supply online of shutters in the UK.¹
6. The CMA investigated whether the Merger could give rise to horizontal unilateral concerns in each of these frames of reference. The CMA also investigated whether the Parties' presence at both the wholesale and retail levels could give rise to vertical concerns.
 7. However, the CMA found that, in each of these frames of reference, the Parties were not each other's closest competitor, they were differentiated in their product offerings and were constrained by a large number of competitors.
 8. The CMA believes that these constraints, taken together, are sufficient to ensure that the Merger does not give rise to a realistic prospect of a substantial lessening of competition (**SLC**) as a result of horizontal unilateral effects or vertical effects.
 9. The Merger will therefore **not be referred** under section 22(1) of the Enterprise Act 2002 (the **Act**).

ASSESSMENT

Parties

10. HD is a global manufacturer of window coverings and architectural products (eg building facades), headquartered in the Netherlands. HD supplies window coverings in the UK at the wholesale and retail level through a number of group companies and brands, which are explained further in Figure 1 below. The turnover of HD in FY2016 was £2.1bn worldwide, £[REDACTED]m of which was generated in the UK.
11. Hillarys is a UK-based supplier of window coverings, awnings and flooring. Hillarys supplies window coverings in the UK at the wholesale and retail level through a number of business units and brands, which are explained further below. The turnover of Hillarys in FY2016 was £183m worldwide, £[REDACTED]m of which was generated in the UK.

¹ HD submitted that there are no sales of readymade shutters. The CMA has not identified any sales of readymade shutters in its investigation and has therefore not defined a separate segment for readymade shutters.

Transaction

12. The Transaction involves the completed acquisition by HD of Hillarys.

Procedure

13. The CMA's mergers intelligence function identified this transaction as warranting an investigation.²
14. The Merger was considered at a Case Review Meeting.³

Jurisdiction

15. As a result of the Merger, the enterprises of HD and Hillarys have ceased to be distinct.
16. The UK turnover of Hillarys exceeds £70 million, so the turnover test in section 23(1)(b) of the Act is satisfied.
17. The Merger completed on 17 July 2017. The four-month deadline for a decision under section 24 of the Act is 19 January 2018, following extension under section 25(2) of the Act.
18. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
19. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 11 October 2017 and the statutory 40 working day deadline for a decision is therefore 5 December 2017.

Counterfactual

20. The CMA assesses a merger's impact relative to the situation that would prevail absent the merger (ie the counterfactual). For completed mergers, the CMA generally adopts the pre-merger 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

² See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, paragraphs 6.9-6.19 and 6.59-60.

³ See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, from paragraph 7.34.

available to it, it believes that, in the absence of the merger, the prospect of these conditions continuing is not realistic, or there is a realistic prospect of a counterfactual that is more competitive than these conditions.⁴

21. In this case, there is no evidence supporting a different counterfactual, and HD and third parties did not put forward arguments in this respect. Therefore, the CMA believes the pre-Merger conditions of competition to be the relevant counterfactual.

Background

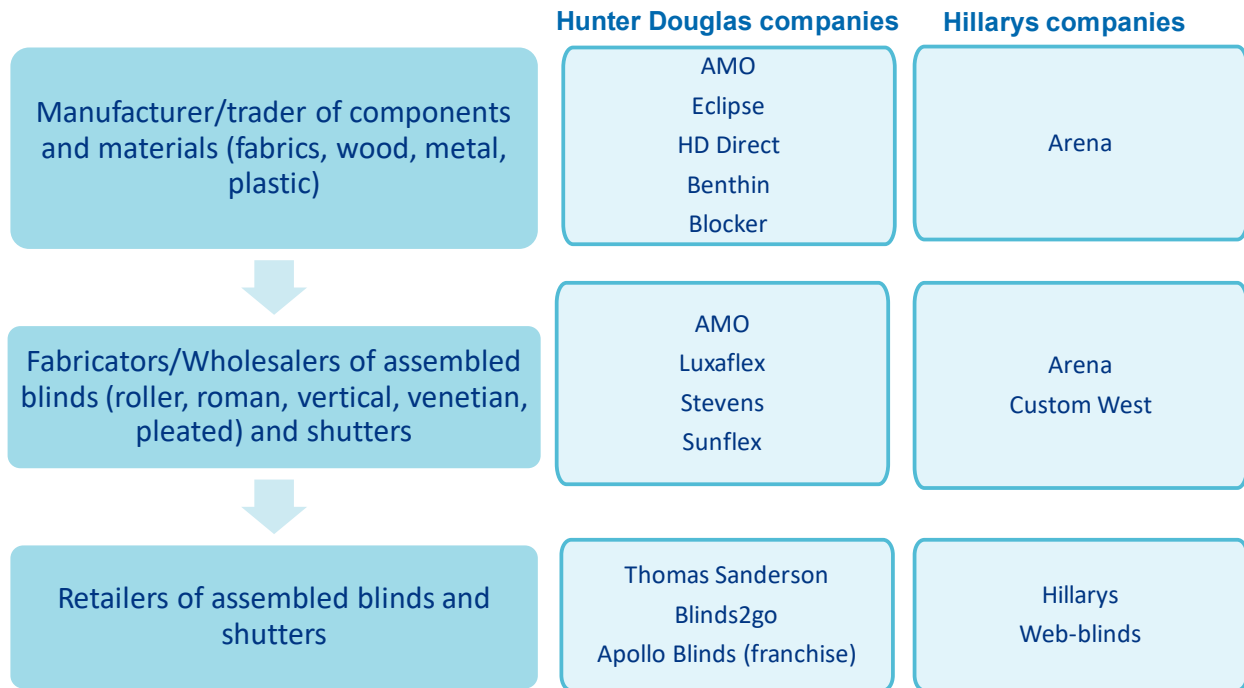
Business activities and relevant overlaps

22. The Parties are active in the supply of blinds and shutters in the UK at a number of levels of the supply chain. Figure 1 shows the Parties' business units active at each level.

⁴ [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).

Figure 1:

Blinds and shutters supply chain and the Parties' business units at each level



23. The Parties' activities principally overlap in:
- (a) the wholesale supply of M2M blinds⁵ and shutters to retailers; and
 - (b) the retail supply of M2M blinds and shutters to consumers.
24. The CMA sets out its approach to these two overlaps in the frame of reference section below.
25. The Parties also overlap in the wholesale supply of blind components and materials, curtains and awnings and the retail supply of curtains. However, given the Parties' low combined shares of supply of these products, the small increment in those shares resulting from the Merger and the large number of

⁵ Where the CMA refers to blinds in this Decision, it is referring to a number of assembled blinds products including roller blinds, venetian blinds, roman blinds, vertical blinds and pleated blinds, but excluding shutters.

alternative suppliers of these products, the CMA did not investigate these overlaps further.⁶

26. [90-100]% of Hillarys sales and [90-100]% of HD's sales are to the residential/retail sector (as defined in *Hunter Douglas/Faber and Benthin* (2010)).⁷ The CMA has not identified any basis for competition concerns arising from the Merger in relation to the contract sector (ie the supply of window coverings under contract for specific projects, for example offices, hospitals or schools).

The wholesale and retail supply of M2M blinds and shutters

27. The Parties overlap primarily in the supply of M2M blinds and shutters at both the wholesale and the retail level.
28. The M2M blinds and shutters markets have some notable features that affect the way competition works, which are relevant to the competitive assessment:
- (a) some wholesalers purchase or import fully-assembled blinds, while others purchase components and materials and fabricate the assembled blinds, using machinery or by hand. Shutters tend to be imported as a fully assembled product;
 - (b) most wholesalers of blinds are able to provide a range of different blind types, although there are some that focus on specific products;
 - (c) retailers do not tend to hold stock. Rather, they have agreed supply arrangements with wholesalers who provide product books that can be shown to customers as well as some sample products;
 - (d) retailers tend to hold several books so that they can show customers a full range of products. Once a customer has made an order and measurements are available, the M2M product will be ordered from the wholesaler; and
 - (e) approximately 70% of M2M blind sales and around 90% of shutter sales involve the retailer visiting the customer's home to provide a quotation and

⁶ For the wholesale supply of blind components, materials and awnings, the increment is [0-5]% or less. The Parties' combined share for the wholesale supply of curtains is less than [5-10]% and for the retail supply of curtains the increment is [0-5]%.

⁷ <https://assets.publishing.service.gov.uk/media/555de33440f0b666a200006a/Hunter-Douglas.pdf>

take measurements.⁸ This means that, for the customer, the choice is not between blinds stores within a certain distance of their home but between retailers who are willing to visit them to provide a quotation. Retailers of M2M blinds and shutters that provide a home measuring service include national multiples (e.g. Dunelm, John Lewis and Next), national specialist window coverings companies (e.g. the Parties) and a large number of local/regional independents.

Frame of reference

29. 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 merger 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.

Product scope

30. The Parties overlap in the wholesale and retail supply of blinds and shutters in the UK.
31. HD submitted that these overlaps should be assessed on the following product frames of reference:
- (a) the wholesale supply of blinds (including blinds, shutters and possibly curtains, including readymade and M2M products); and
 - (b) the retail supply of window coverings (including blinds, shutters and curtains, including readymade and M2M products).

⁸ The remaining 30% for MTM blinds and 10% for shutters involve the customer making their own measurements and then purchasing the blinds in-store or online. These figures are based on data from the Parties. See paragraphs 80 to 84 for more discussion of the distinction between online, in-store and telephone sales.

The wholesale supply of blinds, curtains and shutters

32. The CMA considered a number of possible approaches to establishing an appropriate product frame of reference at the wholesale level, ie whether to distinguish or aggregate:

- (a) blinds vs all window coverings;
- (b) different types of blind; and/or
- (c) M2M and readymade blinds.

Blinds vs. all window coverings

33. HD submitted that:

- (a) the wholesale supply of blinds should form part of a broader product frame of reference for the supply of all window coverings, including shutters and possibly curtains;
- (b) shutters are a type of blind, and therefore the submissions in relation to blinds (see paragraphs 41 and 42) apply equally to shutters; and
- (c) the market may include the wholesale supply of curtains, but the Parties conducted their analysis on the basis of a blinds and shutters segment only.

34. In order to assess the substitutability of different window coverings, the CMA asked the Parties' retailer customers and competitors and their wholesale competitors whether they considered the following products to be substitutes:

- (a) blinds and curtains; and/or
- (b) blinds and shutters.

35. The CMA received responses from approximately 30 of the Parties' retailer customers and competitors, representing both large retailers and small retailers, and 25 of the Parties' wholesale competitors. The responses indicated clearly that blinds, curtains and shutters are not substitutable from the demand side with one another, as set out in further detail below.

Blinds vs. curtains

36. The vast majority of retailer customers that responded to the CMA stated that curtains are not a substitute for blinds. No customers stated that they would switch from purchasing blinds to purchasing curtains in response to a 5% increase in the price of blinds.
37. Approximately half of the Parties' wholesale competitors who supply blinds and who responded to the CMA also supply curtains. However, given the evidence that there is no demand-side substitution between curtains and blinds and no evidence provided by the Parties on this question, the CMA adopted, on a cautious basis, a product frame of reference for the wholesale supply of blinds, separate from curtains.

Blinds vs. shutters

38. The vast majority of retailer customers that responded to the CMA stated that shutters are not a substitute for blinds. No customers stated that they would switch from purchasing blinds to purchasing shutters in response to a 5% increase in the price of blinds.
39. While the boundaries of the relevant product market are generally determined by reference to demand-side substitution alone,⁹ the CMA may widen the scope of the market where there is evidence of supply-side substitution. However, in this case, over two thirds of the blinds wholesalers who responded to the CMA did not supply shutters at all; and the CMA identified some shutter wholesalers who do not supply blinds. The CMA therefore believes the conditions of competition for blinds and shutters are different and it is not appropriate to aggregate them on the grounds of supply-side substitution.
40. On the basis of this evidence, the CMA identified separate product frames of reference for the wholesale supply of each of blinds and shutters.

Blinds – possible segmentation by type of blind

41. HD submitted that there is no reason to segment the wholesale supply of blinds by type because:

⁹ [Merger Assessment Guidelines](#), paragraph 5.2.17.

- (a) customers purchase a range of blinds; and
 - (b) wholesalers generally supply most types of blind and can easily switch to supply different types.
42. The Parties referred to the OFT's approach in *Hunter Douglas/Faber and Benthin*¹⁰ in which it did not segment the wholesale supply of blinds by blind type.
43. No comments received from third parties suggested that the CMA should depart from the OFT's approach in that case. Therefore the CMA used as its starting point a frame of reference for the wholesale supply of all types of blinds.

Blinds – possible segmentation between M2M and readymade blinds

44. HD submitted that no meaningful distinction can be made between readymade and M2M blinds for the purposes of market definition because:
- (a) there is no difference in their functionality;
 - (b) they can be of similar quality (eg M2M blinds can be “cut-down” from readymade blinds);
 - (c) they can be at a similar price point; and
 - (d) there is a high degree of retail competition between readymade and M2M, and suppliers could easily focus their production on either type in response to shifting retailer demand.
45. However, the vast majority of retailer customers that responded to the CMA stated that readymade blinds are not a substitute at the retail level for M2M blinds. No retailers stated that they would switch from purchasing M2M blinds to purchasing readymade blinds in response to a 5% increase in the price of M2M blinds.
46. Only a small minority of the competitors who responded to the CMA and who confirmed that they supply M2M blinds at the wholesale level said that they also supply readymade blinds. The CMA therefore believes the conditions of competition for M2M and readymade blinds are different and it is not appropriate to aggregate them on the grounds of supply-side substitution.

¹⁰ <https://assets.publishing.service.gov.uk/media/555de33440f0b666a200006a/Hunter-Douglas.pdf>

47. Given the lack of evidence of demand- or supply-side substitution between readymade and M2M blinds, the CMA adopted a product frame of reference for the wholesale supply of M2M blinds, separate from readymade blinds.

Conclusion on the wholesale product frame of reference

48. On the basis of the evidence received, the CMA believes that the appropriate wholesale product frames of reference for assessing the competitive effects of the Merger are:

- (a) the wholesale supply of M2M blinds; and
- (b) the wholesale supply of shutters.¹¹

The retail supply of blinds, curtains and shutters

49. The retail supply of window coverings has not been assessed in previous decisions of the CMA or its predecessor bodies.
50. The CMA considered a number of possible approaches to establishing an appropriate product frame of reference at the retail level, including whether to distinguish or aggregate:
- (a) blinds and curtains;
 - (b) blinds and shutters;
 - (c) different types of blind;
 - (d) M2M and readymade blinds; and/or
 - (e) sales made in-store, online, in-home and/or via the telephone.
51. In order to assess the substitutability between window coverings, the CMA spoke to retailers, including about what drives their customers' sales and the substitutability of the various products. In this way, the CMA used the retailers' responses as a proxy for consumers' views.

¹¹ HD submitted that there are no readymade sales of shutters. The CMA has not identified any sales of readymade shutters and therefore it did not consider a separate segment for readymade shutters.

52. As stated at paragraph 35 the CMA received responses from around 30 retailers, representing both large retailers and small retailers.

Blinds vs. curtains

53. To support the aggregation of blinds and curtains, HD submitted that:
- (a) end-customers switch between blinds and curtains because they have the same purpose (ie in-home decoration, control of sunlight and privacy);
 - (b) many Hillarys' customers who initially enquire about curtains also express an interest in blinds when asked;
 - (c) HD's online visitor data shows prospective customers switching between its blinds2go and curtains2go websites;
 - (d) although some customers have a specific preference for blinds or curtains, there are many marginal customers who may switch between blinds and curtains based on price;
 - (e) third party industry reports look at a broad window coverings market which includes curtains and blinds; and
 - (f) many retailers sell both blinds and curtains and can easily shift order volumes and reallocate display space from one to the other to meet changes in consumer demand.
54. The evidence provided by the Parties suggests that blinds may be a substitute for curtains but that curtains are a limited constraint on blinds. For example, HD provided data from its blinds2go and curtains2go sites suggesting that [20-30]% of visitors to curtains2go also looked at blinds; while only [5-10]% of visitors to blinds2go also looked at curtains. Similarly, Hillarys reported that [50-75]% of customers that enquire about curtains also express an interest in blinds. Hillarys did not provide data in relation to customers enquiring initially about blinds. The CMA notes that this asymmetry could reflect the Parties' focus on blinds and/or changing fashion, with a trend currently to replace curtains with blinds.
55. However, as discussed at paragraph 45, the vast majority of retailers who responded to the CMA stated that curtains are not a substitute for blinds. As noted above, retailers said that they would not switch from purchasing blinds to

purchasing curtains in response to a 5% price increase, and some comments from retailers noted a lack of demand-side substitutability by consumers.

56. Given this evidence, the CMA adopted, on a cautious basis, a product frame of reference for the retail supply of blinds, separate from curtains.

Blinds vs. shutters

57. HD submitted that shutters are a type of blind, as set out above at paragraph 33.
58. However, as discussed at paragraph 38, evidence from retailers demonstrates a lack of demand-side substitution between blinds and shutters. Moreover, approximately half of all retailers that sell blinds, that responded to the CMA, do not sell shutters, suggesting that there is less supply-side substitution than that submitted by HD. The CMA also identified some shutter retailers who do not supply blinds. Therefore, the competitor set is likely to differ depending on whether the CMA is focussing on the supply of blinds or shutters.
59. On the basis of this evidence, on a cautious basis, the CMA identified separate product frames of reference for the retail supply of each of blinds and shutters.

Blinds – possible segmentation by type of blind

60. HD submitted that all types of blinds should be aggregated because:
- (a) most retailers supply a wide range of blind types; and
 - (b) given the widespread availability of all blind types from upstream wholesale suppliers, any retailer can easily expand its range to include an additional blind type.
61. This is consistent with the approach taken by the OFT in *Hunter Douglas/Faber and Benthin*.¹² No comments received from third parties suggested that the CMA should depart in the present case from the OFT's approach in that case.
62. The CMA therefore used as its starting point a frame of reference incorporating the retail supply of all types of blinds.

¹² <https://assets.publishing.service.gov.uk/media/555de33440f0b666a200006a/Hunter-Douglas.pdf>

Blinds – possible segmentation between M2M and readymade

63. HD submitted that the retail supply of blinds should include M2M and readymade blinds because:
- (a) consumers switch between readymade and M2M products on the basis of price, quality and accessibility; and
 - (b) many retailers sell both M2M and readymade blinds and can easily change order quantities in response to changes in consumer demand.
64. However, as discussed at paragraph 45, the vast majority of customers that responded to the CMA stated that readymade blinds are not a substitute at the retail level for M2M blinds, and some comments from retailers noted a lack of demand-side substitution between M2M and readymade blinds. Moreover, only a small minority of the blinds retailers who responded to the CMA supply both M2M and readymade blinds, indicating that the conditions of competition for M2M and readymade blinds are different and it is not appropriate to aggregate them on the grounds of supply-side substitution.
65. Given the lack of evidence of demand- or supply-side substitution between readymade and M2M blinds, the CMA adopted a product frame of reference for the retail supply of M2M blinds, separate from readymade blinds. The CMA did, however, take account of the constraint from readymade on M2M at the retail level in its competitive assessment where applicable.

Possible delineation by sales channel

66. The Parties each have two main retail channels – in-home and online:
- (a) **HD** has a national network of sales representatives who conduct customer home-visits under its Thomas Sanderson brand. It also sells blinds and shutters online through its blinds2go website; and
 - (b) **Hillarys** has a national network of sales representatives who conduct customer home-visits under its Hillarys brand. It also sells blinds and shutters online through its Web-Blinds website.
67. The in-home channel accounts for the majority of M2M blind and shutter retail sales in the market overall.

68. With respect to blinds sold through customer home-visits, appointments can be made online or over the telephone. In addition, Hillarys has a showroom and a number of concessions (in shopping centres), which do not make sales but where customers can book an in-home appointment. Neither party has physical stores from which a customer can purchase blinds or shutters.
69. The CMA found that the scope of services provided through the in-home channel varies between retailers, but will often include design, measuring and fittings services. This contrasts with online sales where customers measure and fit their M2M blinds or shutters without the retailer's assistance.
70. The CMA refers to the supply of M2M blinds and shutters sold through in-home visits as 'the supply in-home of M2M blinds and shutters'. The CMA refers to the supply of M2M blinds and shutters sold online as 'the supply online of M2M blinds and shutters'.
71. Given that the Parties overlap in these two retail segments, the CMA used each of these segments as a starting point and assessed whether it was appropriate to aggregate them together and/or with other sales channels.

Possible segmentation between online and in-home

72. HD submitted that there is no reason to segment the retail supply of blinds and shutters separately by online and in-home and that both these sales channels should be considered together for the following reasons:
 - (a) many retailers have a multi-channel approach, making sales through a combination of online websites, physical high street stores and in-home visits. For example, John Lewis and Dunelm obtain customer leads and make sales through their websites and high street stores with sales typically finalised through home visits;
 - (b) customers use a combination of channels when researching and purchasing blinds;
 - (c) Hillarys believes there are no clear demographic differences between its customers who purchase online through Web-Blinds and its customers who purchase in-home through Hillarys; and
 - (d) retailers, including the Parties, sell the same blinds through both channels.

73. However, the CMA noted evidence to suggest that online blinds and shutter sales are a weak constraint on in-home sales, as set out below.
74. While surveys submitted by the Parties suggest that most consumers research blinds online, they also show that most consumers purchase M2M blinds and shutters in-home because they want a measuring and fitting service. For example, consumer research conducted for Hillarys, found that [redacted].
75. The CMA also noted a focus group survey commissioned by Hillarys, which identified two distinct customer groups according to their preference for either having a home visit or not. The first group valued a home visit, while the second [did not].
76. In addition, a presentation by PwC to HD as part of the Hillarys sale noted that that [customers have preferences for DIY versus 'do it for me']. A due diligence report prepared for the sale also noted that [customers have preferences for DIY versus 'do it for me'].
77. The CMA also noted that the Parties' internal documents indicate that a clear managerial distinction is made between online and in-home sales. For example, [redacted]. Moreover, in its announcement of the Merger, HD described Hillarys as having "*significant expertise in in-home sales*".
78. A third-party retailer told the CMA that, while some customers will purchase online, others will not because they have a requirement for a measuring and fitting service.
79. Given this evidence, the CMA adopted, on a cautious basis, separate product frames of reference for the retail supply of M2M blinds by separate sales channel, ie for each of in-home and online.

Possible aggregation of online with other sales channels

80. The CMA considered whether to broaden the scope of the online frame of reference to include other retail channels, such as in-store or telephone sales, which also allow customers to purchase M2M blinds and shutters by supplying their own measurements.
81. HD submitted that it is not aware of retailers delivering brochures to people's homes, which then lead directly to telephone sales (ie without a home-visit). It said that, in the very small minority of cases where customers place orders over

the telephone because they do not feel comfortable ordering over the Parties' websites, this should be classified as an online order. HD said that it has no pure telephone sales.

82. Some third-party retailers did identify telephone sales as a sales channel; however, this was a small minority of the retailers that responded to the CMA and it was not possible to identify if they should be characterised as online sales.
83. With regard to physical stores, responses from third parties about who they view as their key competitors suggest that constraints for online retailers come from other online retailers rather than from physical stores. This is consistent with Hillarys' June 2016 business plan which identified [redacted] that included specialist window covering online retailers. The CMA also noted that sales of M2M blinds and shutters in-store without an in-home visit were minimal for the vast majority of retailers.
84. In light of this evidence, on a cautious basis, the CMA has not widened the product scope of the retail supply online of M2M blinds and shutters to include in-store or telephone sales.

Conclusion on the retail product frame of reference:

85. For the reasons set out above, the CMA has considered the impact of the Merger in the following product frames of reference:
 - (a) the retail supply in-home of M2M blinds;
 - (b) the retail supply online of M2M blinds;
 - (c) the retail supply in-home of shutters; and
 - (d) the retail supply online of shutters.

Geographic scope

Wholesale supply of blinds and shutters

86. HD submitted that the appropriate geographic frame of reference for the wholesale supply of blinds is global. Although in *Hunter Douglas/Faber and*

*Benthin*¹³ the OFT found that the vast majority of wholesalers/fabricators were UK-based and supply only to UK retailers, the Parties suggested that imports have increased significantly since 2010 and that the market was now global. They noted that:

- (a) many wholesale suppliers in the UK distribute the products of fabricators based abroad;
- (b) many retailers (e.g. John Lewis) purchase blinds directly from outside the UK, with some having sourcing offices based overseas and others using online platforms to place orders with foreign suppliers;
- (c) some of their customers have switched to overseas suppliers; and
- (d) barriers to entry to the UK market are low for foreign suppliers.

87. In order to assess these submissions, the CMA asked retailers where their suppliers were based. The responses received from large blinds retailers indicated that they do use overseas suppliers in addition to UK suppliers but that this is predominantly for readymade blinds. Retailers said that, in contrast, M2M blinds suppliers were predominantly UK based. Smaller retailers who responded to the CMA only used UK suppliers for M2M blinds. One small retailer noted that it did not have sufficient scale to make overseas sourcing commercially viable.
88. All the shutter retailers who responded to the CMA said that they sourced their shutters from UK-based suppliers.
89. In light of this evidence, on a cautious basis, the CMA has adopted the UK as the appropriate geographic frame of reference for the wholesale supply of blinds and shutters.

Retail supply of blinds and shutters

90. HD submitted that the appropriate geographic frame of reference for the retail supply of blinds and shutters is national, both for online and in-home sales.
91. To support a national assessment of in-home sales, the Parties pointed to:

¹³ <https://assets.publishing.service.gov.uk/media/555de33440f0b666a200006a/Hunter-Douglas.pdf>

- (a) nationwide competition from large retailers with national coverage of stores and home services; and
 - (b) strong competition in all areas from a large array of independent retailers, such that while the competitors in each local area may differ, the intensity of competition does not.
- 92. On the latter point, the Parties submitted evidence to show that independent retailers were spread throughout all regions of the UK.
- 93. The Parties also noted that there were no structural reasons to believe that competitive conditions would vary significantly by location:
 - (a) barriers to entry and expansion are low;
 - (b) store location is less important because suppliers travel and deliver to customers without distance-based charges, with many retailers not having a physical store, and even where retailers have a store their sales may be by telephone or online; and
 - (c) where consumers do visit a store, they may be more willing to travel because blind and shutter purchases are often large and 'one off'.
- 94. Both Parties said that their in-home sales representatives could supply customers anywhere in the UK, and they noted that representatives are able to offer discounts to customers on an individual basis.
- 95. Large store-based retailers, who also have nationwide coverage, told the CMA that they price on a national basis. These retailers said that there was some discounting locally but this was generally linked to factors such as seasonal promotions, rather than differences in local competition.
- 96. With regard to in-home sales, the CMA noted some potential for price and service to vary locally. However, it also noted that:
 - (a) many retailers do not have a physical store;
 - (b) the Parties are both able to visit customers in-home at any location across the UK;
 - (c) competitors with a national presence (ie John Lewis, Dunelm etc.) are also able to visit customers in-home at any location across the UK; and

- (d) there are over 3,000 independent retailers spread across the UK such that, in any given local area, there will always be a number of these retailers that will also be able to visit customers in-home.
97. These factors taken together suggest that the conditions of competition are largely homogeneous across the country.
98. In light of the above, the CMA assessed the effect of the merger at the national level, while noting the constraint from local independent retailers.
99. With regard to online sales, the CMA noted that the Parties and their online competitors all price nationally and deliver across the UK. For these reasons, the CMA assessed the retail supply online of M2M blinds and shutters on a national basis.

Conclusion on frames of reference

100. For the reasons set out above, the CMA assessed the impact of the Merger in the following frames of reference:
- (a) the wholesale supply of M2M blinds in the UK;
 - (b) the wholesale supply of shutters in the UK;
 - (c) the retail supply in-home of M2M blinds in the UK;
 - (d) the retail supply online of M2M blinds in the UK;
 - (e) the retail supply in-home of shutters in the UK; and
 - (f) the retail supply online of shutters in the UK.

Competitive assessment

Theories of harm

101. The CMA assessed both horizontal unilateral effects and vertical effects in the wholesale and retail supply of M2M blinds and shutters, as set out below.

Horizontal unilateral effects

102. Horizontal unilateral effects may arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitably to raise prices or to degrade quality on its own and without needing to coordinate with its rivals.¹⁴ Horizontal unilateral effects are more likely when the merging parties are close competitors.
103. In order to assess the likelihood of the Merger resulting in horizontal unilateral effects, the CMA considered within each frame of reference (see paragraph 100):
- (a) shares of supply;
 - (b) the closeness of competition between the Parties; and
 - (c) competitive constraints.

Wholesale supply of M2M blinds

Shares of supply

104. The Parties estimated that they had a combined share of [20-30]% in the wholesale supply of M2M blinds, with [10-20]% for HD and [10-20]% for Hillarys. These estimates were based on sales data and an estimate for the size of the segment based on management knowledge and available third-party evidence, e.g. annual reports. However, the CMA placed limited weight on the Parties' estimate because a significant proportion of the inputs were based on market intelligence that could not be verified by the CMA.
105. By reference to a number of industry reports and data provided by the Parties and third parties, the CMA estimated that the Parties combined share of the wholesale supply of M2M blinds is between [20-30]% ([10-20]% for HD and [10-20]% for Hillarys) and [40-50]% ([20-30]% for HD and [10-20]% for Hillarys).
106. According to the CMA's estimates, Decora and the Parties each hold significant shares of supply, with Decora holding the largest share of [10-30%] and Global and Tropical each having a share of between [0-10%]. There is also a significant tail of other smaller competitors.

¹⁴ [Merger Assessment Guidelines](#), from paragraph 5.4.1.

Closeness of competition

107. HD submitted that the Parties are not close competitors in the wholesale supply of M2M blinds because HD tends to supply large retailers, whereas Hillarys supplies smaller retailers.
108. The Parties also provided evidence that they have different product offerings. While both supply all types of blinds, HD's supply is focused on hand-made ("bespoke") roller and pleated blinds, while Hillarys has much higher sales of "cut-down" wooden venetians.
109. The Parties submitted that there is also a significant difference in their pricing, with HD's average unit prices around [over 50]% higher than Hillarys.
110. Some third-party retailers told the CMA that particular HD brands (AMO and Luxaflex) and Hillarys Arena compete closely; however, the response rate to this question was low. The CMA found only one example of a retailer switching between the Parties.
111. The Parties submitted that Hillarys [✂] with large retailers for supplying blinds in the last five years, and this was confirmed by third parties. In contrast, large retailers confirmed that they source from HD.
112. Only four out of fourteen wholesale suppliers named both Parties as their competitors; all of the remaining wholesale suppliers which responded named only one of the Parties as a competitor (with one exception which said its competitors were only small local businesses).
113. On the basis of this evidence, the CMA believes that HD and Hillarys are not close competitors in the wholesale supply of M2M blinds.

Competitive constraints

Alternative suppliers

114. Unilateral effects are more likely where customers have little choice of alternative supplier. The CMA therefore considered whether there are alternative suppliers that would provide a competitive constraint on the combined entity.
115. HD submitted that they compete with a wide range of suppliers, including wholesalers such as Decora, Global and Tropical.

116. In response to the CMA's market testing, Decora was most commonly listed as an alternative supplier by both large and small retailers. Large retailers also mentioned a range of other options, including contract suppliers and overseas suppliers, as discussed below; while small retailers frequently mentioned Global and Tropical as alternatives. A range of other wholesale suppliers were also named by retailers, including Bloc Blinds, Concept, Excel, Harris Parts, Nantmor and Styleline.
117. Some wholesale competitors told the CMA that the market shares of the smaller wholesalers understate their importance as a competitive constraint in this market.

Out-of-market constraints

118. A small number of retailers told the CMA that they self-supplied some of their assembled M2M blinds, ie by purchasing components and materials and fabricating the blinds themselves.
119. Large retailers also reported using alternative supply options, which included:
 - (a) The use of contract suppliers (who tend to supply M2M blinds for specific projects, e.g. offices, hospitals or schools); and
 - (b) Directly purchasing assembled M2M blinds from overseas suppliers.

Conclusion

120. The Parties do not compete closely for the business of large retailers, where HD and Decora are the clear market leaders. While the Parties do both supply small retailers, the Parties' products are differentiated and there is limited evidence of direct competition. Moreover, the CMA believes that there is a sufficient remaining constraint from the large number of alternative suppliers.
121. The CMA therefore believes that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in the wholesale supply of M2M blinds.

Wholesale supply of shutters

Shares of supply

122. The Parties estimated that they had a combined share of [30-40]% in the wholesale supply of shutters, with a [5-10]% increment resulting from the merger.¹⁵
123. Using a mix of industry reports and data provided by the Parties and third parties, the CMA estimated that the Parties have a combined share of the wholesale supply of shutters of [40-50]%, with [5-10]% attributable to HD and [40-50]% attributable to Hillarys.
124. According to the CMA's estimated shares, Shuttercraft and Hillarys each hold significant shares of supply, with Shuttercraft's share being around [30-40]%. HD and Decora are the next biggest suppliers, with market shares of [5-10]% and [5-10]%, respectively. The CMA's market testing also identified some other shutter wholesalers, including Ena Shaw and Trade Shutters.

Closeness of competition

125. HD submitted that the Parties are not close competitors in the supply of shutters as they have different product offerings and pricing points.
126. HD submitted that shutters are not a focus for HD, but where it is active in shutters it tends to sell higher quality PVC/vinyl shutters. In contrast, Hillarys sells lower quality MDF shutters. HD submitted that Shuttercraft is a much closer competitor to Hillarys than HD as Hillarys and Shuttercraft offer identical products and both source from Nien Made.
127. The Parties' internal documents identified Shuttercraft and Decora as competitors, as well as each other. For example, in Hillarys' June 2016 business plan, the named wholesale suppliers of shutters were: Arena Shutters (Hillarys), Custom West (Hillarys), Shuttercraft, TS Shutters (HD) and Decora.
128. The CMA asked retailers whether any of the HD wholesale companies (eg Luxaflex) provided a good alternative to Custom West (Hillarys' wholesale shutters unit). No retailers directly identified Hillarys and HD as alternatives,

¹⁵ [🔗]

though they commonly listed Hillarys and HD within the competitor set for the supply of shutters.

129. The CMA asked other wholesale shutter companies whether they saw Hillarys and HD as close competitors at the wholesale level. The CMA received responses from eight wholesalers, four of which said that Custom West and Luxaflex compete closely, while four said that they did not.
130. On the basis of this evidence, the CMA believes that HD and Hillarys compete in the wholesale supply of shutters but they are not close competitors.

Competitive constraints

131. HD submitted that the Parties compete with two large wholesale suppliers of shutters (Decora and Shuttercraft) and a number of smaller suppliers including TLC Shutters, Trade Shutters and some shutter suppliers which are part of TCMM Group.
132. HD also submitted that Nien Made, which supplies a large proportion of the shutters to the wholesale market in the UK, could appoint additional distributors and could enter the market directly (as it has done in the USA).

Conclusion

133. The CMA has found that the Parties do not compete closely in the wholesale supply of shutters, where Shuttercraft provides the strongest constraint on Hillarys. Decora and a number of other smaller players also provide a constraint.
134. Based on the low increment to shares of supply, the lack of closeness of competition and a sufficient constraint from a range of alternative suppliers, in particular Shuttercraft, 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 the wholesale supply of shutters.

Retail supply in-home of M2M blinds


Shares of supply

135. The Parties estimated that they had a combined share of [20-30]% in the retail supply in-home of M2M blinds, with an increment of [5-10]%. This estimate was

based on the Parties' sales data, available third-party evidence on revenues, market intelligence, and an estimate of the collective size of independent retailers. However, as with the wholesale supply of M2M blinds, the CMA placed limited weight on the Parties' estimate because a significant proportion of the inputs were based on market intelligence that could not be verified by the CMA.

136. By reference to industry reports and data provided by the Parties and third parties, the CMA estimated that the Parties combined share of the retail supply in-home of M2M blinds is between [20-30]% and [40-50]%, with an increment of between [5-10]% and [10-20]%.
137. The Parties submitted that market share estimates may understate the presence of independent retailers. The Parties' evidence included:
 - (a) an estimate of the number of independent retailers based on a triangulation of data from the British Blind and Shutter Association (BBSA); Experian; Yell.com; collection books provided by a competitor in wholesale components; and the Parties' supply to these retailers.
 - (b) a range of estimates on the average revenue of independent retailers from the BBSA and from Hillarys and Apollo Blinds sales consultants.

Closeness of competition

138. The majority of third-party retailers which responded to the CMA's market testing said that Hillarys and Thomas Sanderson are close competitors in the retail supply in-home of M2M blinds. The CMA also found some evidence of Thomas Sanderson monitoring Hillarys in relation to its product range and its service offering.
139. However, the CMA also found that there is significant differentiation in the products being offered by each of the Parties and between the customers they serve. In particular:
 - (a) minutes of a board meeting before the Transaction note that Hillarys has a ;
 - (b) Thomas Sanderson targets more affluent customers than Hillarys and has higher net achieved prices; for example, £[200-300] for pleated blinds versus £[100-200] for Hillarys, and £[100-200] for aluminium venetian blinds versus £[0-100] for Hillarys;

- (c) Hillarys has approximately [10-20] times more advisers than Thomas Sanderson, and will visit all customers in-home who request a visit. Thomas Sanderson has a more targeted group of customer advisers and [X];
- (d) Thomas Sanderson does not supply roller blinds, wooden venetian blinds, vertical blinds or roman blinds, while Hillarys supplies significant quantities of these products; and
- (e) an analysis of addresses visited by sales agents between 1 October 2015 and 31 December 2016 showed that only [0-5]% of the addresses that Hillarys visited were also visited by HD within 30 days, and only [10-20]% of addresses that HD visited were also visited by Hillarys within 30 days.

140. On the basis of this evidence, the CMA believes that HD and Hillarys are not particularly close competitors in the retail supply in-home of M2M blinds.

Competitive constraints

141. HD submitted that the Parties compete with a wide range of suppliers, including larger national retailers such as John Lewis, Dunelm and Next, and a very large number of independent retailers that together supply over 40% of the market. HD submitted that there are over 3,000 independent retailers, which compete effectively with the Parties. HD submitted that independent retailers can offer a similar range of products at similar prices and with a similar level of service to the Parties and other national retailers.
142. The evidence the CMA received from third parties confirmed these constraints. In particular, the CMA noted that, due to effective wholesale competition and the nature of retail sales being made by local sales advisers in-home, local independent retailers competed effectively with national retailers.

Conclusion

143. The Parties are competitors in the retail supply in-home of M2M blinds, but are not particularly close competitors and there are other credible national suppliers, including John Lewis and Dunelm, and a large number of independent competitors who compete effectively across the UK. The CMA believes that these alternative suppliers will together provide a sufficient remaining constraint on the merged entity. For these reasons, 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 the retail supply in-home of M2M blinds.

Retail supply online of M2M blinds

Shares of supply

144. The Parties estimated that they had a combined share of [30-40]% in the retail supply online of M2M blinds, with an increment of [0-5]%. As discussed above, this estimate was based on available third-party data and the Parties' market knowledge, much of which could not be verified.
145. The CMA estimated a combined share of [50-60]%, with a [5-10]% increment. This was based on independent estimates of the market size and the Parties' sales data. The CMA notes that the increment to share of supply is small in this segment. However, given evidence of rapid growth in this market, the CMA has treated the market share estimate with caution.
146. Other retailers operating online include specialist blind retailers such as 247 Blinds [10-20]% and Blinds Direct [5-10]%, and retailers with a wider product offering such as Laura Ashley [0-5]% and Very [0-5]%.

Closeness of competition

147. The Parties provided limited information on the extent of competition between their online offerings. They instead noted that Web-Blinds is relatively small and that there are several specialist online retailers.
148. However, the majority of third party retailers told the CMA that blinds2go (HD) and Web-Blinds (Hillarys) are close competitors. This is also consistent with Hillarys June 2016 business plan, [redacted].
149. On the basis of this evidence, the CMA believes that HD and Hillarys are close competitors in the retail supply online of M2M blinds, but that Hillarys is significantly smaller than HD.

Competitive constraints

Alternative suppliers

150. HD submitted that there are a large number of online competitors supplying M2M blinds, including Interior Goods Direct, 247 Home Furnishings, Direct Blinds, BlindsUK, Very, Powered blinds, Blinds4UK, Concept Blinds Direct, Vale blinds, Wilson blinds, Ali express and English Blinds.
151. HD also said that, as sales are made online, there is no need for a supplier to have a physical retail presence. Indeed, retailers do not even need their own website, as they can make online sales through third party platforms such as eBay and Amazon. These features make entry and expansion very easy.
152. The responses the CMA received to its market testing indicated that the Parties' online competitors view other blinds-specific online retailers as their primary competitors. The CMA confirmed that there are a large number of online specialist retailers of M2M blinds. The CMA noted an industry report, which lists the biggest online specialists as blinds2go, 247 Blinds, Web-Blinds, Blinds UK and Interior Goods Direct (Blinds Direct).
153. In addition to the specialist online retailers, the CMA found evidence of:
 - (a) online retailers using eBay and Amazon as platforms for selling their blinds;
 - (b) large retailers such as John Lewis and Laura Ashley selling M2M blinds online; and
 - (c) several multi-product online retailers, such as Very.

Out-of-market constraints

154. The CMA also found some evidence that the supply online of M2M blinds may be constrained by the supply online of readymade blinds, with consumers sometimes willing to cut down a readymade blind rather than buy a M2M blind online. A due diligence report on the Hillarys sale by LEK noted [REDACTED].

Conclusion

155. The Parties are close competitors in the retail supply online of M2M blinds. blinds2go (HD) is the market leader, while Web-Blinds (Hillarys) is currently

among a large group of other online specialist retailers which compete with blinds2go. The CMA believes that these alternative suppliers will together provide a sufficient remaining constraint on the merged entity. For these reasons, 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 the retail supply online of M2M blinds.

Retail supply in-home of shutters

Shares of supply

156. The Parties estimated that they had a combined share of [30-40]% in the retail supply in-home of shutters, with HD's share being [10-20]% and Hillarys [20-30]%. As with other estimates, this was based on available third-party data and the Parties' market knowledge.
157. Using a mix of industry reports and data provided by the Parties and third parties, the CMA estimated that the Parties have a combined share of the retail supply in-home of shutters of [40-50]%, with [10-20]% attributable to HD and [20-30]% attributable to Hillarys.
158. Other retailers in the in-home shutters segment are TCMM [0-10]%; John Lewis [0-5]% and Clement Browne [0-5]%.

Closeness of competition

159. HD submitted that the Parties' combined share of supply in-home of shutters overstated the level of competition between the Parties. In support of this view, the Parties submitted:
 - (a) Thomas Sanderson (HD) and Hillarys do not tend to compete for the same retail customers, with Thomas Sanderson focussing on more affluent customers.
 - (b) Thomas Sanderson focuses on different products to Hillarys (eg [75-100]% of Hillarys retail shutter sales are of wooden shutters, which only make up [25-50]% of Thomas Sanderson's retail shutter sales).

(c) Hillarys has approximately [10-20] times more advisers than Thomas Sanderson, and will visit all customers in-home who request a visit. Thomas Sanderson has a more targeted group of customer advisers, [✂].

160. Third party responses to the CMA were consistent with the Parties' evidence and did not indicate that the Parties are close competitors. Hillarys was seen as the market leader in the retail supply in home of shutters, with Thomas Sanderson (HD) being identified amongst a group of other retailers, which also includes Shuttercraft, John Lewis, Clement Browne, Plantation Shutters, TCMM and other independents.
161. On the basis of this evidence, the CMA believes that HD and Hillarys are not close competitors in the retail supply in-home of shutters.

Competitive constraints

162. HD submitted that a large number of competitors would exist post-Merger, including TCMM and Plantation Shutters. This was consistent with evidence collected by the CMA, which identified many alternative in-home retailers of shutters, including Appeal, Clement Browne, John Lewis, Next and TCMM (e.g. Shutterly Fabulous). Moreover, as with the supply in-home of M2M blinds, there are also a large number of independent retailers in this segment, offering a similar service to the Parties.

Conclusion

163. The Parties are competitors in the retail supply in-home of M2M shutters, but are not close competitors and there are other credible national suppliers, including John Lewis and Next, and a large number of independent competitors who compete effectively across the UK. The CMA believes that these alternative suppliers will together provide a sufficient remaining constraint on the merged entity. For these reasons, 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 the retail supply in-home of shutters.

Retail supply online of shutters

164. The CMA has not focussed its investigation on the retail supply online of shutters, given the Parties' low combined shares of supply of these products

([10-20]%), the small increment in those shares resulting from the Merger ([0-5]%) and the presence of larger alternative suppliers of these products.

Vertical effects

165. Vertical effects may arise when a merger involves firms at different levels of the supply chain, for example a merger between an upstream supplier and a downstream customer or a downstream competitor of the supplier's customers. Vertical mergers may be competitively benign or even efficiency-enhancing, but in certain circumstances can weaken rivalry, e.g. when they result in foreclosure of the merged firm's competitors. The CMA only regards such foreclosure to be anticompetitive where it results in an SLC in the foreclosed market(s), not merely where it disadvantages one or more competitors.
166. The CMA's approach to assessing vertical theories of harm is to analyse (a) the ability of the merged entity to foreclose competitors, (b) the incentive of it to do so, and (c) the overall effect of the strategy on competition.
167. In the present case, the CMA considered whether the Parties could increase the wholesale price of blinds and/or shutters to rival retailers, making it harder for them to compete with the Parties in the retail sale of blinds and shutters (partial input foreclosure), driving customers to the merged entity's retail businesses.¹⁶
168. On the basis of the evidence considered in the horizontal unilateral effects sections above, the CMA found that the Parties would not have the incentive to restrict wholesale supply to rival retailers. This is because there are many alternative wholesale suppliers to which retailers could switch without significantly worsening their retail offer.
169. Due to the Parties' lack of incentive to foreclose, there was no need for the CMA to assess the effects of this foreclosure strategy on competition.
170. Therefore, the CMA believes that the Merger will not give rise to a realistic prospect of an SLC as a result of vertical effects in the wholesale and retail supply of blinds or shutters.

¹⁶ As regards customer foreclosure, Hillarys is self-supplied, as is Thomas Sanderson to a very large extent; hence these in-home retailers do not have the ability to foreclose independent wholesalers. In regard to internet retailing, blinds2go is 60% owned by HD and uses several wholesalers, including overseas suppliers and Arena (Hillarys), but the merger makes little difference since HD is already present as a wholesaler. There are also competing internet retailers offering an alternative route to market for independent wholesalers.

Barriers to entry and expansion

171. Entry, or the 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.
172. In the present case, 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

173. Consequently, the CMA does not believe that it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC within a market or markets in the UK.

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Competition and Markets Authority
5 December 2017