

Completed acquisition by Vp plc of Brandon Hire Group Holdings Limited

Decision on relevant merger situation and substantial lessening of competition

ME/6724/17

SUMMARY

- 1 On 7 November 2017, Vp plc (**Vp**) acquired Brandon Hire Group Holdings Limited (**Brandon Hire**) (the **Merger**). Vp and Brandon Hire 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 15 April 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 supply of tool and equipment hire services in the UK. Customers are primarily construction and utilities companies, various contractors active in the construction industry, and facilities management companies which can operate nationally or more locally/regionally. They are serviced from the Parties' network of depots, which covers the UK. Due to the different types of customers served, the CMA believes that there are national and local/regional aspects to competition for these services. The CMA has therefore assessed the effects of the Merger at a national, UK-wide level and at a local level.

National assessment

- 4 In assessing the effect of the Merger at a national level, the CMA considered a range of evidence including (i) share of supply estimates; (ii) internal documents; and (iii) evidence from third parties responding to the CMA's market testing. The CMA found that:
 - (a) The Parties have relatively modest shares of supply;
 - (b) The Parties are not particularly close competitors;
 - (c) The Parties will continue to be constrained by:
 - (i) Four other dedicated tool and equipment hire companies which operate nationwide (HSS Hire, GAP Group, A-Plant, and Speedy Services). Evidence from third parties and internal documents indicated that they were equipped to

compete closely with the Parties for a wide range of customers, and in particular for customers active on a national basis who typically rely on suppliers that can meet most of their tool and equipment hire needs nationwide; and

- (ii) To a lesser extent, builders' merchants who operate a tool and equipment hire business and independent tool and equipment hire companies which operate locally or regionally (independents). Evidence from internal documents and third parties indicated that builders' merchants may have a different customer focus and that the constraint from independents can vary and may be more limited in relation to nationally-active customers.

- 5 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 tool and equipment hire services in the UK.

Local assessment

- 6 To conduct its local assessment, the CMA undertook an initial filtering exercise to screen out overlap areas that were unlikely to raise competition concerns. The CMA identified three areas, all located in Kent, which required further consideration.
- 7 On the basis of evidence from third parties and the Parties' internal documents, the CMA believes that, overall, in each of the three areas, the Parties will face sufficient competition post-Merger from: (i) core competitors operating both within and outside of the 20-mile catchment area considered in the filtering exercise; (ii) builders merchants; and (iii) independent competitors.
- 8 The CMA therefore believes 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 in any local area.
- 9 The Merger will therefore **not be referred** under section 22(1) of the Enterprise Act 2002 (the **Act**).

ASSESSMENT

Parties

- 10 Vp is a tool and plant hire company operating in the UK, Europe, Australasia, and Malaysia. Vp owns and operates seven subsidiaries which specialise in plant and tool hire across different sectors. In the UK, Vp's activities overlap with Brandon Hire's activities through Vp's subsidiary, Hire Station. Hire Station is made up of three divisions: Hire Station Tools, MEP and ESS Safeforce. While all three divisions are active to some extent in tool and equipment hire, Hire Station Tools is the main division through which Vp supplies tool and equipment hire services.

MEP has a greater focus on powered access and plant equipment and ESS is active in supplying survey, safety and communication equipment hire services.¹

- 11 For the year ended 31 March 2017, Vp recorded revenues of £249m, £220m of which was achieved in the UK.¹ Hire Station recorded revenues of £[redacted] (almost all of which was achieved in the UK) for the year ended 31 March 2017.² Hire Station operates 91 depots, 57 of which are dedicated to tool and equipment hire.
- 12 Brandon Hire is a company specialised in tool and equipment hire operating in the UK through its 143 depots. It recorded revenues of £79.0m for the year ended 31 December 2016.³

Transaction

- 13 The Transaction involves the completed acquisition by Vp of Brandon Hire.

Procedure

- 14 The CMA's mergers intelligence function identified this transaction as warranting an investigation.⁴

Jurisdiction

- 15 As a result of the Merger, the enterprises of Vp and Brandon Hire have ceased to be distinct.
- 16 The UK turnover of Brandon Hire exceeds £70 million, so the turnover test in section 23(1)(b) of the Act is satisfied.
- 17 The Merger completed on 8 November 2017. The four-month deadline for a decision under section 24 of the Act is 15 April 2018, following an 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 22 January 2018 and the statutory 40 working day deadline for a decision is therefore 16 March 2018.

Counterfactual

¹ Source: VP 2017 and 2016 annual reports.

² According to the Parties, Hire Station derived £[redacted] from tool and equipment hire for the year ended 31 March 2017.

³ According to the Parties, Brandon Hire generated £[redacted] of its revenue from tool and equipment hire for the year ended 31 December 2016.

⁴ See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, paragraphs 6.9-6.19 and 6.59-60.

- 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 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.⁵
- 21 In this case, the Parties submitted evidence that, absent the Merger, Hire Station Tools would have opened another four depots in certain locations across the UK.⁶ The evidence available to the CMA indicated that these plans were only delayed as a result of the Merger. Therefore, the CMA believes that this evidence indicates that there is a realistic prospect of a counterfactual which is more competitive than the pre-Merger conditions of competition, ie one where these four Hire Station Tools depots were operating and competing with Brandon Hire and other suppliers. The CMA has therefore treated these depots as imminently likely to enter the market (and therefore as giving rise to an overlap with an existing Brandon Hire store) for the purposes of its assessment.
- 22 The CMA received no other evidence supporting a different counterfactual for other features relevant to the CMA's competitive assessment. Therefore, the CMA believes that, with the exception of the four depots noted above, the pre-Merger conditions of competition represent the relevant counterfactual.

Frame of reference

- 23 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.⁷
- 24 The Parties overlap in the supply of tool and equipment hire services in the UK. Evidence from the CMA's investigation indicates that companies active in the supply of tool and equipment hire services will typically procure, store, maintain and replace tools. These are normally delivered to end-users, before being collected at the end of the hire period.
- 25 End-users or customers are primarily construction and utilities companies, various contractors active in the construction industry, and facilities

⁵ *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).

⁶ Hire Station Tools had plans to open depots in [REDACTED].

⁷ *Merger Assessment Guidelines*, paragraph 5.2.2.

management companies.⁸ Customers requiring tool and equipment hire services can vary both in size and geographic areas of activity. Some customers may be primarily active in one area or region or have activities across the UK.

- 26 The range of products supplied by the Parties can also vary greatly both in terms of size (eg from smaller cutting tools to some plant)⁹ and end use (eg more specialised equipment for surveys).
- 27 In a 2007 Decision (*Speedy/Hewden*), the OFT assessed the Merger between two tool and equipment hire suppliers by reference to the supply of tool and equipment hire services both locally and nationally.¹⁰ The OFT did not find it necessary to assess the Merger by reference to narrower product categories, due to evidence of supply side substitution.
- 28 The CMA has considered this decisional practice and the implications of product range and customer type for the purposes of determining the appropriate frame of reference below.

Product scope

Segmentation by product type

- 29 The information provided by the Parties suggests that the relevant frame of reference, in the Parties' view, is tool and equipment hire services for construction, refurbishment, and maintenance projects. The Parties submitted that examples of the products captured by this category include: access equipment (i.e. cherry pickers), generators, cutting equipment, pipe cutting and press fitting equipment, welding equipment, and breaking equipment.¹¹
- 30 As noted in the OFT's decision in *Speedy/Hewden*, from a consumer perspective, the goods within each category of tool and equipment would typically not be substitutable for those in another, and so there is unlikely to be material demand-side substitution between these categories.

⁸ Companies active in tool and equipment hire services can also serve other companies active in tool and equipment hire services via what are called 'cross-hiring' arrangements. The Parties are both active in 'cross-hiring' tools and equipment to other tool and equipment hire suppliers. The evidence available to the CMA indicated that the Parties derive limited proportions of their revenues (12% Brandon Hire, 4.25% Hire Station) from these activities and that sufficient supply alternatives will remain for other tool and equipment hire services suppliers after the Merger, including supply directly from manufacturers. The CMA has therefore not considered this overlap further for the purposes of its assessment of the Merger.

⁹ Larger pieces of equipment, such as large excavators and dumpers, are referred to in the industry as plant. While the Parties hire out some small plant, like small excavators, they do not hire out heavy plant. Heavy plant includes very large units, such as concrete pumping equipment, cranes, earthmoving equipment, crushing plant, road making equipment, etc.

¹⁰ See [OFT decision](#) on anticipated acquisition by Speedy Hire plc of the tool hire division of Hewden Stuart plc, 25 July 2007 (**Speedy/Hewden**).

¹¹ The Parties submitted that this description should not include the supply of survey, communication and safety equipment hire services, where the Parties also overlapped to a limited extent, as these products are not generally considered by the industry to form part of the more general tool and equipment hire services segment. The Parties indicated that the customers served and suppliers active in this segment could also vary significantly from those active in more general tool and equipment hire. The evidence available to the CMA indicated that it would be appropriate to distinguish between general tool and equipment hire and survey, communication and safety equipment hire. However, as no concerns would arise on either basis, given the limited additional increment to the Parties' combined position on this basis and evidence of a number of additional suppliers active in this segment, the CMA has not needed to conclude on this point.

- 31 While the boundaries of the relevant product market are generally determined by reference to demand-side substitution alone, the CMA may widen the scope of the market where there is evidence of supply-side substitution.¹² In the circumstances of the current case, and consistent with decisional practice in *Speedy/Hewden*, the CMA believes that the evidence available on supply-side substitution supports adopting a single frame of reference for tools and equipment hire. In particular:
- (a) While the precise range of products offered differs slightly between the main suppliers of tools and equipment hire services and the Parties, they all broadly provide the same range of tools and equipment, as well as small plant.
 - (b) Evidence from third party suppliers indicated broad agreement regarding which categories constitute tools and equipment and that these were generally hired out together as part of a tools and equipment hire offer.¹³
 - (c) Third parties confirmed that expanding the range of tools and equipment available for hire in response to shifts in customer demand is relatively simple as the principle assets required (staff and stock) are flexible.

Customer type

- 32 The CMA may sometimes define relevant markets for separate customer groups if the effects of the merger on competition to supply a targeted group of customers may differ from its effects on other groups of customers, and require a separate analysis. This may happen when, for example, suppliers can target higher prices at customers willing to pay more, or when competition for customers differs significantly between different customer groups. In some cases, the prices customers pay will vary because they are buying different products.
- 33 In determining whether there are separate customer groups, the key question is whether some customers face different competitive conditions (and so some could get better terms for the same service).
- 34 In assessing the breadth of relevant markets defined by customer groups, the CMA may consider a range of factors, including whether customers have different preferences or have access to different sets of suppliers.¹⁴
- 35 Evidence from the Parties' and third-party submissions indicates that the Merger could affect different groups of customers differently. In particular, evidence available to the CMA indicates that customers operating across multiple sites and regions of the UK (nationally-active customers) may

¹² *Merger Assessment Guidelines*, paragraph 5.2.17.

¹³ The primary categories that were consistently mentioned by third parties include access equipment, breakers, cutting and grinding tools, plumbing equipment, and surface preparation equipment.

¹⁴ *Merger Assessment Guidelines*, paragraphs 5.2.28 – 5.2.30.

have different preferences and access to a different set of suppliers than local customers.

- 36 Nationally-active customers typically require a supplier which operates a network of depots across the UK. This is because such customers usually centralise their procurement of tools and equipment, and will therefore seek a single supplier or small number of suppliers that can service their sites nationwide. As a result, competition for these customers primarily takes place amongst companies that operate a network of depots which extends across the UK. This was confirmed by nationally-active customers, as well as nationally-active third-party suppliers.¹⁵
- 37 Local customers, for whom a national network is not critical, consider the suppliers in their local area based on a range of factors including relative proximity of the depot, primarily to allow for efficient delivery purposes and in some cases to allow for collection. As a result, competition for such customers takes place locally or regionally.
- 38 However, the CMA notes that the evidence suggests that there is considerable differentiation between different types of customer, which makes it difficult to precisely define categories for nationally-active customers and more regional customers. Therefore, the CMA has not sought to identify specific categories for customer groups and it has instead taken account of variations in customer size and geographic focus, to the extent relevant, within the geographic frame of reference and competitive assessment.

Conclusion to product scope

- 39 For the reasons set out above, the CMA has considered the impact of the Merger on the supply of tool and equipment hire services.
- 40 As noted above, the CMA believes it is not necessary to segment the relevant product market into narrower segments based on different categories of tools on offer. Different categories of tool and equipment are generally hired out together as part of a tools and equipment hire offer, and the CMA did not identify significant variations in the conditions of competition across product categories. As a result, the CMA has not found it necessary to conclude on the appropriate product frame of reference.

Geographic scope

- 41 Consistent with the differences across customer groups described above, the CMA has considered the appropriate geographic frame of reference

¹⁵ Another parameter of competition unique to nationally-active customers appears to be a guarantee of compliance with regulations. According to competitors, nationally-active customers will typically deal with national suppliers through framework agreements which allow them to call upon the supplier for their needs nationwide. Given the total size of their orders from single companies, they need a particularly high level of confidence in the supplier's compliance with quality standards to ensure they meet all their health and safety regulations. It is significantly simpler for large companies to check the compliance status of a few companies rather than a large number of companies.

for (i) multi-site/region customers (nationally-active customers) and (ii) local customers.

Nationally-active customers

- 42 For larger, nationally-active customers, given the variations in footprint of different customers across different parts of the UK, the CMA has not considered it appropriate to define the geographic frame of reference according to any particular region. The CMA has therefore assessed the impact of the Merger on these customers on a national, UK-wide, basis. However, the CMA has taken into account any variation in the competitive strength of alternative suppliers based on the geographic presence of suppliers, to the extent relevant, within the competitive assessment.

Local customers

- 43 As noted above, given the importance of location (ie proximity), the CMA has considered the effects of the Merger on a local basis.

Methodology for determining where the Parties compete locally

- 44 Where the frame of reference is local, the CMA's starting point for determining where the Parties' activities overlap – and therefore the local area where the Parties compete – is to identify the relevant catchment areas of the Parties' sites.
- 45 The Parties submitted that tool and equipment hire businesses typically deliver units to end-users. Third parties confirmed that most orders are delivered rather than collected.¹⁶ Therefore, for the purposes of determining the catchment areas, the CMA primarily focused on the distances over which the Parties and other suppliers can deliver, as opposed to the distances customers are willing to travel. The CMA nonetheless took into account the scope for collection for the purposes of determining the appropriate catchment areas and in its assessment of the effects of the merger.
- 46 The CMA's analysis of the Parties' data indicated that the distance over which they serve their customers is likely to be greater than 10 miles, and could be as far as 15-20 miles (based on straight-line distance).¹⁷
- 47 Third party competitors indicated that their depots typically serve an area within a radius of approximately 20-30 miles.¹⁸ Most customers also

¹⁶ There might be a different catchment area for customers that typically collect their order. However, these customers amount to a small proportion of total customers and orders. All customers submitted that they get their tools delivered at least some of the time, with the majority stating that this is the primary arrangement

¹⁷ The Parties submitted customer data for their (i) Folkstone and Margate depots (Hire Station Tools) and (ii) Dover and Margate depots (Brandon Hire). Given the Parties' relatively dense depot networks, this may overstate the maximum distance they are willing to travel.

The CMA carried out its assessment by identifying the geographic catchment area which captured 80% of customers of a given depot.

¹⁸ Third parties indicated 20-30 miles 'delivery distance', which is likely to mean driving distance. For reference, 20-30 miles drive distance is approximately 17-25 miles in a straight line.

indicated that they would expect to have products delivered from depots that are 20 miles away or further.¹⁹

- 48 In light of the evidence described above, the CMA believes that a catchment area of at least a 20-mile straight-line distance provides an appropriate starting point for assessing the Merger at the local level.
- 49 Consistent with the CMA's established practice, the determination of overlapping catchment areas provides a starting point for identifying potential competitive interactions between the Parties' businesses, and does not constitute a mechanistic framework for competitive assessment. The CMA may consider, for example, whether there are customers located within a part of the catchment area who could be more acutely affected by the Merger. Equally, the CMA has also considered the constraint posed by competitors outside this catchment area.

Conclusion on frame of reference

- 50 For the reasons set out above, the CMA has considered the impact of the Merger in the following frames of reference:
- a) The supply of tool and equipment hire services in the UK.
 - b) The supply of tool and equipment hire services in the local areas where the Parties overlap based on 20-mile catchment areas.

Competitive assessment

Horizontal unilateral effects

- 51 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.²⁰ Horizontal unilateral effects are more likely when the merging parties are close competitors.
- 52 The CMA assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC in relation to horizontal unilateral effects in the supply of tool and equipment hire services in the local areas where the Parties overlap and/or the UK.

Supply of tool and equipment hire services in the UK

- 53 As noted above, the Parties overlap and compete on a UK-wide basis for customers who require services across multiple regions in the UK. The CMA has assessed the impact of the Merger across the UK by considering evidence on the extent to which the Parties compete closely and are competitively constrained by alternative suppliers based on: (i)

¹⁹ Of the 19 customers who responded to the relevant question, only 3 considered the maximum distance that they could expect delivery from to be less than 20 miles. Of these, none provided evidence that suppliers would not consider deliveries from distances of 20 miles or more.

²⁰ [Merger Assessment Guidelines](#), from paragraph 5.4.1.

shares of supply; (ii) Parties' submissions and internal documents; and (iii) third party views from the CMA's market testing.

Shares of supply

54 The CMA has estimated national shares of supply for tool and equipment hire services on a revenue and depot count basis.²¹

Table 1. Revenues, depot numbers, and national shares of supply of large suppliers of tool and equipment hire services

Company	Tool/equipment hire revenue*	Market share by revenue (%)	Number of depots	Market share by depots (%)
Brandon Hire	[REDACTED]	0-5	142***	5-10
Hire Station	[REDACTED]	0-5	67****	0-5
Combined	139	5-10	200	5-10
Speedy	[REDACTED]	10-20	[REDACTED]	5-10
HSS	[REDACTED]	10-20	[REDACTED]	5-10
Jewson Hire	[REDACTED]	0-5	[REDACTED]	10-20
TP Hire	[REDACTED]	0-5	[REDACTED]	5-10
A-Plant	[REDACTED]	0-5	[REDACTED]	0-5
Hirebase	[REDACTED]	0-5	[REDACTED]	0-5
GAP	[REDACTED]	0-5	[REDACTED]	0-5
Supply UK	[REDACTED]	0-5	[REDACTED]	0-5
Total top 10	[REDACTED]	50-60	[REDACTED]	40-50
Total market	[REDACTED]	100	[REDACTED]	100

Source: Parties and third parties.

* Parties revenues generated from safety, survey and communications equipment are excluded.

**Includes the MEP overlap on tool and equipment hire.

***Excludes one Phoenix location which is not co-located with the main tool hire depots.

****Excludes depots of ESS (24 in total)

55 As can be seen from the table above, the Parties' combined market share on a revenue basis, when considering all suppliers of tool and equipment hire, is 5-10%. This is the third largest market share on a national basis, behind HSS 10-20% and Speedy 10-20%.

56 Given that, as noted above and discussed further below, competition for nationally-active customers mainly takes place among the larger multi-branch hire suppliers, the CMA has also estimated shares of supply on the basis of only these larger multi-branch suppliers. The evidence available to the CMA from the Parties and third parties indicates that these are: Speedy Services (**Speedy**), HSS Hire Group (**HSS**), Ashtead Group (the parent company of **A-Plant**), and GAP Group (**GAP**) (referred to as **core competitors** going forward).

²¹ The CMA's estimates are based on actual revenue and depot information collected from the Parties and from third parties, revenue and depot estimates provided by the Parties for their competitors (where the CMA did not have access to actual data), and a third-party market report. The market report in question was produced by Catherine Stratton, an industry expert who had used information provided to her by executives of companies active in the tool and equipment hire sector.

Table 2. Shares of supply of core competitors

Provider	Share of revenues, %	Share of depots, %
Brandon Hire	10-20	10-20
Hire Station	5-10	5-10
Combined	20-30	20-30
Speedy	20-30	20-30
HSS	30-40	20-30
A-plant	5-10	10-20
GAP	5-10	5-10

57 As can be seen from the table above, if only the core competitors are considered, post-Merger, the Parties' shares of supply remain moderate at 20-30% (in terms of revenues) or 20-30% (in terms of number of depots). Speedy and HSS would still be larger suppliers with 20-30% (20-30% by number of depots) and 30-40% (20-30% by number of depots), respectively.

58 As shares of supply are only one indicator of relative competitive constraint, and, when assessing the supply of differentiated offerings, may be less meaningful, the CMA has further considered the extent to which alternative suppliers could be considered to constrain the Parties nationally in the 'competitive constraints' section below (paragraphs 66-74)

Closeness of competition

59 The Parties submitted that Hire Station and Brandon Hire are not close competitors as they target different customer groups, with the former focusing more on nationally-active customers and the latter holding a more fragmented customer base.²²

60 The Parties' internal documents confirm that Brandon Hire has a more fragmented customer base,²³ and that it is perceived by Vp as having a slightly different geographic footprint.²⁴ However, they also indicate that Brandon Hire is nonetheless capable of serving, and serves in practice, a number of nationally-active customers.²⁵ In that context, Hire Station internal documents consistently identify Brandon Hire as a competitor. However, they also consistently identify other competitors and generally do not suggest that Hire Station competes more closely with Brandon Hire than other suppliers.

61 Third parties generally agreed that the Parties are close competitors with each other in that they supply a similar range of tools and equipment

²² Email of 1 December 2017; also noted in page 11 of the Summary Information Pack.

²³ Project Crater Vendor Due Diligence (Annex 11, p.50,51); VP plc Board Meeting Minutes, September 2017 (Annex 08, p.3). Project Carter Board note, September 2017 (Annex 09, p.1)

²⁴ Brandon Hire is considered to have a greater coverage in south west and southern England. Hire Station is considered to be more active in the south east and north of the UK. Project Carter Due Diligence Review, September 2017 (Annex 10A, p.5)

²⁵ For example, internal documents acknowledge that Brandon Hire still holds a 'number of large accounts' Summary Information Pack (p.20). This is consistent with the Parties' submissions on their top 5 customers by revenue, both nationally and at individual depots.

across the UK to nationally-active customers. However, third party responses also identified a number of other suppliers with a similar proposition and did not indicate that the Parties competed particularly closely in any way.

- 62 On the basis of the evidence set out above, the CMA believes the Parties, despite some differences in their customer base and geographical coverage, are close competitors for nationally-active customers in that they provide services that are largely substitutable. However, the evidence available also indicates that they compete against a significant number of alternative suppliers (discussed further below) and that, in this context, they do not appear to compete particularly closely.

Competitive constraints

- 63 The Parties submitted that they are constrained nationally by the other four core competitors: Speedy, A-Plant, GAP, and HSS. They also submitted that the Parties face significant constraint in aggregate from builders' merchants such as Travis Perkins and Jewson and from more local/regional suppliers (**independents**).

Core competitors

- 64 Hire Station internal documents provided by Vp show that in addition to Brandon Hire, it consistently monitors Speedy, GAP, HSS, A-Plant.²⁶
- 65 Both customers and competitors confirmed that the services and products provided by the core competitors and the Parties are largely substitutable. Further, third parties indicated that they all operate a national network of depots, and compete effectively for all customers, including larger, nationally-active customers.

Builders' merchants

- 66 The Parties submitted that they are constrained by the three main national builders' merchants in the UK which offer tool and equipment hire: Jewson, Travis Perkins and Grafton Group (through its tool and equipment hire unit Hirebase). The Parties submitted they provide a similar range of product categories and also typically deliver products to end users.
- 67 As indicated in Table 1, these builders' merchants have a combined share of supply of between 10% and 15% in the UK, which is similar in scale to the shares of the two largest core competitors. Further, the evidence available to the CMA indicates that they have national coverage: Travis Perkins and Jewson operate over 200 depots that offer tool and equipment hire, while Hirebase operates 130 depots. Each supplier also offers both delivery and collection services.

²⁶ This information was largely taken from monthly Hire Station Commentary documents, which discuss the performance of each Hire Station division (and sometimes individual depots), customers and projects, competitors, products, etc.

- 68 Evidence of competitive monitoring from the Parties' internal documents indicates that while builders' merchants provide some constraint, they may not be as significant as the core competitors identified.²⁷ In Vp's internal documents, builders' merchants are discussed as competitors alongside the companies the CMA identified as core competitors.²⁸ Nevertheless, builders' merchants generally do not feature as often as core competitors in discussions of competitors' activities.
- 69 Evidence from third parties is consistent with the position captured in the Parties' internal documents. Third parties indicated that builders' merchants are a constraint to some extent because they can and do offer a similar and significant tool and equipment hire product portfolio. However, third party responses also indicated that the businesses of builders' merchants are structured more towards satisfying the product and service demands of smaller customers (SMEs, DIY enthusiasts, self-employed builders, plumbers and engineers, etc). As a result, customers with more dedicated tool and equipment hire requirements may use builders' merchants more infrequently. Customers noted some possible limitations when comparing builders' merchants to the core competitors in terms of a more limited product portfolio, and a lack of adequate customer service. This limited the degree to which they were considered viable alternatives to dedicated tool and equipment hire companies.
- 70 Based on this evidence, the CMA believes that builders' merchants may impose some constraint on the Parties for all types of customers, including nationally-active customers, but that this constraint is more limited than that from core competitors.

Local and regional 'independent' competitors

- 71 The Parties' internal documents discussing local competition refer to independent competitors and, in particular, regional suppliers, indicating that they consider them to provide a commercial alternative for customers, at least to some extent.²⁹
- 72 Evidence from third parties confirmed that independent competitors are a constraint to some extent. Approximately half of the customers who responded to the CMA's questionnaire (including both nationally-active customers, as well as customers operating regionally and locally) submitted that they hire tools and equipment from local or regional tool and equipment hire companies.
- 73 However, evidence from third parties also indicated that the constraint from independent suppliers may vary significantly and may generally be less significant for nationally-active customers. In particular:

²⁷ Internal documents providing monthly commentary on Hire Station at regional and branch level between April 2017 and December 2017.

²⁸ The internal documents in question monitor commercial activities, such as new depot openings, by companies Vp considers to be competitors. These occasionally also explicitly refer to the impact these activities may have on Hire Station.

²⁹ Internal documents providing monthly commentary on Hire Station at regional and branch level between April 2017 and December 2017.

- (a) Evidence from independent suppliers and other competitors indicated that the majority of an independent supplier's revenue comes from local customers.
- (b) Nationally-active customers responding to the CMA's market testing indicated that, while they may use some independent suppliers sometimes, they generally only relied on them when other options were limited.
- (c) More generally, both local and nationally-active customers indicated that independent suppliers may have more limited geographic coverage, range and higher prices than the core competitors.

74 On the basis of the evidence above, the CMA believes that independent competitors may impose some constraint on the Parties post-Merger. However, this constraint may vary significantly and is generally more limited than that from core competitors, particularly in relation to larger, nationally-active customers.

Conclusion on national competitive effects

- 75 As set out above, the Parties have moderate combined shares of supply in tool and equipment hire services. The Parties will continue to be constrained by at least four credible tool and equipment hire services suppliers. In addition, in aggregate, the Parties will continue to face some competition from builders' merchants and independent suppliers.
- 76 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 supply of tool and equipment hire services in the UK.

Supply of tool and equipment hire locally

Filtering

- 77 As discussed in paragraphs 44-49 the CMA identified local overlaps between the Parties' depots³⁰ based on 20-mile catchment areas. The CMA found that there were 68 Hire Station depots with one or more Brandon Hire depots within their catchment area, and 104 Brandon Hire depots with one or more Hire Station depots within their catchment area.
- 78 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.
- 79 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,

³⁰ Including, on a cautious basis, Hire Station MEP branches even though, as discussed above, Brandon's activities overlapped to a more limited extent with the activities of this business units.

would indicate that the Merger would not lead to an SLC, without the need for further assessment of the local conditions of competition.

- 80 Where, following the filtering analysis, the Merger would lead to a reduction in alternative effective competitors (excluding the Parties) to two or fewer in any local area, a more detailed assessment was carried out of that local area.³¹ The CMA used filtering to identify possible local areas of concern.

The effective competitor set

- 81 As noted above at paragraphs 64-65, the evidence available to the CMA from the Parties' submissions, internal documents and third-party responses indicate that Speedy, HSS, A-Plant and GAP compete effectively with the Parties.
- 82 On a cautious basis, the CMA has not considered builders' merchants and independent suppliers as effective competitors for the purposes of the CMA's filtering exercise. This is because, although as noted at paragraphs 66-74, they are likely to impose some constraint on the Parties, the evidence available to the CMA indicates that this may be more limited. In particular, in relation to independents, third party evidence indicated that they may present a credible alternative, particularly for smaller, local customers in a number of areas. However, the scope for variation in their constraint indicated that it would be inappropriate to include them as an effective competitor for the purposes of a filtering exercise.
- 83 However, the CMA has taken into account evidence on the extent to which builder's merchants and independents constrain the Parties in its assessment of areas that were identified by the filtering as warranting further assessment.

Conclusion to filtering

- 84 In all but three local overlap areas, the CMA found that at least three alternative effective competitors (ie in addition to the Parties) were present, and that local competition concerns were unlikely to arise. The CMA conducted further analysis of these three areas by reference to further evidence on the local conditions of competition including: (i) the extent to which effective/core competitors from outside the catchment area may provide a constraint; (ii) the overall constraint from other suppliers in the area, including builders' merchants and independents based on evidence that they are constraining the Parties in these local areas.

³¹ The CMA considered the fascia count only in its analysis (ie competitors with more than one depot in a given catchment area were counted as one).

85 The three local areas identified were: Canterbury, Folkestone, and Margate.³²

Local Assessment - Canterbury, Folkestone, and Margate

86 In each of the local areas identified, the filtering analysis indicated that, in addition to the Parties, two alternative core competitors would remain post-Merger: (HSS and Speedy).

87 The CMA also received evidence that the other two core competitors ([redacted]), which, while geographically outside the 20 mile catchment area, regularly serve customers in each of these local areas.

88 In addition, a number of independents and all three builders' merchants will continue to operate in the area. As noted above, the CMA believes that these suppliers may impose some additional constraint on the Parties but that this may vary across different local areas. The Parties' internal documents indicate that builders' merchants and independents do in fact constrain the Parties in these local areas. Internal documents refer to several locally and regionally-operating companies as competing for customers served from its Kent depots. These include Westgate Plant, East Kent Hire, and London Tool Hire.³³ These documents also show that builders' merchants are considered by the Parties to be credible competitors in Kent. A specific reference is made to Hire Station Tool's Margate depot 'fending off local competition' from one of the builders' merchants present in the area.³⁴

Conclusion on local effects

89 As set out above, the CMA believes that the Parties will continue to face sufficient competition in the local areas identified from: (i) core competitors who are already present in these areas; (ii) [redacted]; (iii) builders' merchants and independent suppliers operating in these areas based on evidence they are constraining the Parties in these local areas.

90 As a result, 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 supply of tool and equipment hire services in Canterbury, Folkestone, and Margate.

Barriers to entry and expansion

91 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.

³² These were all local areas identified where a Hire Station depot was the focal point of the catchment area for the purposes of identifying overlaps. There were no additional areas to have failed the filter when using Brandon Hire branches as the focal point.

³³ Internal HST documents relating to Region 4, which includes Kent, produced between April 2017 and December 2017.

³⁴ Core Tools Monthly Commentary, Region 4 (Annex 57C, p3)

92 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

93 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 United Kingdom.

94 The Merger will therefore **not be referred** under section 22(1) of the Act.

Colin Raftery
Director
Competition and Markets Authority
7 March 2018

ⁱ Subsequent to the announcement of the decision, Vp stated that it defines itself as specialising in 'equipment rental and associated services', rather than 'plant and tool hire'. Further, Vp clarified that MEP, its subsidiary, has a greater focus on 'low level access', as opposed to 'powered access'. Low level access is a sub-category of powered access. It is distinct from other sub-categories of powered access in that it solely includes equipment that is only suitable for working at relatively low levels. Vp considered both of these changes to be material, although it did not explain the reasons for this.