

# Completed acquisition by HFD Ltd of Rackhams Ltd

## Decision on relevant merger situation and substantial lessening of competition

**ME/50717**

The CMA's decision on reference under section 22(1) of the Enterprise Act 2002 given on 28 March 2019. Full text of the decision published on 09 April 2019

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

### SUMMARY

1. On 28 September 2018 HFD Ltd (**Headlam**) acquired Rackhams Ltd (**Rackhams**) (the **Merger**). Headlam and Rackhams are together referred to as the **Parties**.
2. The Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of Headlam and Rackhams is an enterprise; that these enterprises have ceased to be distinct as a result of the Merger; and that the share of supply test is met. The four-month period for a decision, as extended, has not yet expired. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
3. The Parties are wholesalers that supply flooring products in the UK. The Parties overlap in the wholesale supply of broadloom flooring and palletised flooring in the London area.<sup>1</sup> On the basis of the limited demand-side and supply side substitution between the wholesale supply of broadloom flooring and palletised flooring, commercial and residential customers, and wholesale supply channels and other routes to customers, the CMA has considered the competitive effects of the Merger within the following frames of reference:

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<sup>1</sup> See definitions of broadloom and palletised flooring and of independent retailers and contractors in paragraphs 30-58 below.

- (a) The wholesale supply of broadloom flooring to independent retailers within Rackhams' catchment area;
  - (b) The wholesale supply of palletised flooring to independent retailers within the M25 area; and
  - (c) The wholesale supply of flooring within the UK, including the wholesale supply of broadloom and palletised flooring by independent retailers combined.
- 4. The CMA found that, absent the Merger, there is a realistic prospect that Rackhams would have been purchased by an alternative purchaser (which may be a more competitive counterfactual given Headlam's existing position within the applicable frames of reference). Consistent with its guidance and established practice, the CMA has assessed the Merger against a counterfactual in which Headlam owns the floorcovering materials distribution business of Garrod Bros (London) Ltd (Garrod Bros), a transaction that is being considered in parallel by the CMA.
- 5. The CMA considered whether the Merger would give rise to:
  - (a) Horizontal unilateral effects in the wholesale supply of broadloom flooring to independent retailers within Rackhams' catchment area;
  - (b) Horizontal unilateral effects in the wholesale supply of palletised flooring to independent retailers within the M25; and
  - (c) A loss of dynamic competition in the supply of broadloom flooring and palletised flooring to independent retailers across the UK, in particular by hindering the entry and/or expansion of a competitively significant force.
- 6. The CMA believes that the Merger does not give rise to a realistic prospect of a substantial lessening of competition (**SLC**) in particular because:
  - (a) In the wholesale supply of broadloom flooring to independent retailers within Rackhams' catchment area, the CMA considers that while there is a significant degree of competitive interaction between the Parties, the overall change in market structure brought about by the Merger is limited (in particular because the increment in share of supply is small) and the merged entity will continue to be constrained by a sufficient number of credible competitors.
  - (b) In the wholesale supply of palletised flooring to independent retailers within the M25 area, the CMA considers that while there is a significant degree of competitive interaction between the Parties, the overall change

in market structure brought about by the Merger is limited (in particular because the increment in share of supply is small) and the merged entity will continue to be constrained by a sufficient number of credible competitors (including some located outside of the M25 area).

- (c) In the supply of broadloom flooring and palletised flooring to independent retailers across the UK, the CMA considers that the available evidence does not support the position that the Rackhams business is a strategically significant asset within the broader supply of broadloom flooring and palletised flooring at the national or regional level, and therefore that the acquisition of Rackhams by Headlam does not hinder the entry and/or expansion of a competitively significant force at the national or regional level.

7. The Merger will therefore **not be referred** under section 22(1) of the Enterprise Act 2002 (the **Act**).

## **ASSESSMENT**

### **Parties**

8. Headlam is a national distributor of flooring materials to both commercial and residential customers in the UK. Headlam sells a variety of manufacturer-branded and own-brand products (which are manufactured by third parties for Headlam). In terms of revenue, approximately [X] of Headlam's sales are to commercial customers while [X] are to retail customers. The turnover of Headlam in the financial year ending 31 December 2018 was approximately £604 million in the UK.
9. Rackhams is a distributor of flooring materials, predominantly residential carpet products, in the South East of England and in London. The turnover of Rackhams for the financial year ending 31 December 2017 was £[X] in the UK.

### **Transaction**

10. Headlam first entered into discussions with Rackhams about the transaction in [X] 2018 and signed the agreement to purchase Rackhams on 28 September 2018.
11. Internal documents from Headlam state that the rationale for the transaction was to:

- (a) [REDACTED];<sup>2</sup>
- (b) [REDACTED];
- (c) [REDACTED];
- (d) [REDACTED]; and
- (e) [REDACTED].

12. The Parties submitted that Rackhams' rationale [REDACTED].

## Procedure

13. The CMA's mergers intelligence function identified this transaction as warranting an investigation.<sup>3</sup>

14. The Merger was considered at a Case Review Meeting.<sup>4</sup>

## Jurisdiction

15. Each of Headlam and Rackhams is an enterprise. As a result of the Merger, these enterprises have ceased to be distinct.

16. The Parties overlap in the wholesale supply of broadloom flooring to independent retailers in Rackhams' catchment area<sup>5</sup> with a combined share of supply of [40-50]% (with an increment of [0-5]% brought about by the Merger). The CMA therefore believes that the share of supply test in section 23 of the Act is met.

17. The Merger completed on 28 September 2018 and was first made public on 4 October 2018. The four-month deadline for a decision under section 24 of the Act is 28 March 2019, 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.

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<sup>2</sup> In the Issues Meeting, Headlam told the CMA that this reflected statements Rackhams made on its website, rather than an assessment made by Headlam.

<sup>3</sup> See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, paragraphs 6.9-6.19 and 6.59-60.

<sup>4</sup> See [Mergers: Guidance on the CMA's jurisdiction and procedure](#) (CMA2), January 2014, from paragraph 7.34.

<sup>5</sup> Rackhams' catchment area is defined below in paragraph 59.

19. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 11 February 2019 and the statutory 40 working day deadline for a decision is therefore 5 April 2019.

## 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 may also assess a completed 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.<sup>6</sup>
21. Headlam submitted that the owners of Rackhams had intended to exit the business, and that if Headlam had not purchased the business, it would likely have continued under different ownership. The CMA therefore considered whether there is a realistic prospect that there would have been an alternative purchaser of Rackhams, absent the Merger, and whether this would have been more competitive than the pre-merger conditions of competition.
22. The CMA considered that the available evidence, including evidence relating to recent market developments and submissions from a number of third parties, indicated that Rackhams would have been purchased by an alternative purchaser absent the Merger. The CMA found that certain players active at a national or regional level, [X],<sup>7</sup> would have been plausible alternative purchasers for the Rackhams business. The CMA considers that this would have been more competitive than the prevailing conditions of competition because it could have enabled the purchaser to compete more effectively (including against Headlam) at the national or regional level (for the reasons explained further in paragraphs 122 to 147 below).
23. The CMA has, however, not been required to conclude on whether a more competitive counterfactual is realistic because, for the reasons explained below, the Merger does not give rise to competition concerns on any plausible basis (including if a more competitive counterfactual were to be adopted).

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<sup>6</sup> [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).

<sup>7</sup> [X]

24. In reviewing mergers at phase 1, the CMA may be required to consider a merger at a time when there is the prospect of another merger in the same market (a parallel transaction). The CMA is likely to consider whether the statutory test for reference would be met whether or not the parallel transaction proceeds (unless the parallel transaction can clearly be ruled out as too speculative).
25. Headlam acquired Garrod Bros (London) on 26 October 2018. This transaction and the Merger were not conditional on each other. Headlam's acquisition of Garrod Bros has been completed and the CMA has cleared Headlam's acquisition of this business. The CMA has therefore assessed the Merger against a counterfactual in which Headlam owns Garrod Bros.

## **Background**

26. The flooring market in the UK involves a significant number of companies operating at different levels of the supply chain. Flooring enters the market through both UK-based manufacturers and importers who supply distributors. In some circumstances manufacturers supply contractors, retailers and end-users directly.
27. Distributors, such as Headlam, distribute manufacturers' products and own-brand products to contractors and retailers. Typically, contractors operate in the commercial flooring market, supplying commercial customers (such as building companies, property developers and public authorities), while multi-site retailers and independent retailers supply and fit domestic flooring. Independent flooring retailers generally operate from a single high street retail site, while multi-site retailers (a category which includes both flooring specialists and generalists, such as DIY stores) have multiple sites.
28. AMA Research estimates that while the retail market is generally fragmented, with half of domestic flooring sales by retailers with less than 1% of the market, approximately a third of domestic flooring sales in total are by independent retailers. Headlam's 2017 annual report states that independent retailers and flooring contractors comprise the vast majority of its customer and noted that 'this segment of the customer base has been growing and gaining market share, in particular independent retailers who are thought to hold an approximate 60% share of the UK floorcoverings market'.<sup>8</sup>

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<sup>8</sup> See page 19 of Headlam's 2017 Annual Report.

## 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 merging parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. The CMA will take these factors into account in its competitive assessment.<sup>9</sup>

### ***Product scope***

30. The Parties overlap in the supply of flooring in the UK. Headlam supplies flooring both to residential and commercial customers throughout the UK, specialising in the distribution of residential carpets. Rackhams similarly specialises in the distribution of residential carpets, albeit over a narrower distribution area in the vicinity of Greater London.

### *The Parties' submissions*

31. Headlam submitted that the appropriate frame of reference for the assessment of the Merger should be the overall supply of flooring in the UK, including not only the wholesale supply of flooring, but also the other routes to end customers (see paragraph 27 above).
32. In particular, Headlam submitted that the supply of flooring should not be segmented by distribution type, because the distribution route which Headlam offers represents only one of the routes to market. Headlam stated its offer to its customers is constrained by other distribution routes to customers, including:
- (a) Direct sales by floorcoverings manufacturers to retailers who compete with its retailer customers;
  - (b) Manufacturers supplying direct to Headlam's core (independent) retail and contractor customer base;
  - (c) Larger contractor groups who source direct from manufacturers (at least for Headlam's contractor customers); and

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<sup>9</sup> [Merger Assessment Guidelines](#), paragraph 5.2.2.

(d) Online sales of flooring (which Headlam submits are increasing).

33. For the reasons explained below, however, the evidence that the CMA has received indicates that it is appropriate to distinguish between: (i) the supply of flooring based on the format in which the products are distributed (ie broadloom and palletised products), (ii) the type of customer (eg independent flooring retailers, contractors and multi-site retailers), and (iii) the supply of flooring by distributors as distinct from other routes to customers.

#### *Broadloom versus palletised flooring*

34. From a demand-side perspective, customers will substitute between flooring products to the extent that they consider them alternatives. Although some flooring products may be alternatives to each other (for example, a consumer may consider switching between laminate and wood flooring), many flooring products have very distinct purposes. For example, underlay and adhesives which are used to lay flooring cannot be substituted for top surface products such as carpet. Even between different top surface flooring products such as carpet and ceramic tiles, customers may have strong preferences for specific product types for particular purposes. For example, tiles or other types of hard flooring are more appropriate for kitchens, as they are easier to clean.
35. While there is very limited demand-side substitution between different types of flooring, the CMA has assessed whether flooring can be aggregated on the basis of supply-side considerations.
36. Flooring wholesalers typically stock several types of flooring. The CMA found that flooring can be aggregated from a supply-side perspective into two main categories:
- (a) Broadloom flooring, which is distributed in rolls, such as carpets and vinyl; and
  - (b) Palletised flooring, which is distributed in pallets, and which includes all other flooring products, including laminates, wood, ceramics and accessories.
37. Several third parties explained that broadloom flooring (ie rolled carpet and sheet vinyl) is produced by manufacturers in 4 metre wide (or wider) rolls. This means that distributors need machinery to cut these rolls to size, at a retailer's request, and require more warehouse space to store and access the



bulky rolls. By contrast, palletised flooring does not need to be cut to size or require specialised storage systems.<sup>10</sup>

38. The CMA considers that installing expensive and bulky cutting equipment or expanding/refitting a warehouse to store broadloom products would represent a substantial change in business strategy for any supplier and, furthermore, would require material investment. This was consistent with submissions made by several third parties, which told the CMA that switching to supply broadloom products would be a costly and difficult undertaking for a supplier which did not already do so.
39. Accordingly, while entry into the wholesale supply of palletised flooring may be relatively easy for suppliers of broadloom flooring and, in practice (as described in the competitive assessment, below) these suppliers seem to offer palletised flooring, suppliers of palletised flooring would not be able to quickly shift capacity into the supply of broadloom products.
40. The CMA therefore has distinguished between the wholesale supply of broadloom flooring and the wholesale supply of palletised flooring.

#### *Independent flooring retailers versus contractors*

41. Headlam's management divides its business into two types, and a Headlam internal document states that the 'the market is segmented between the residential and commercial sectors'. The 'residential' sector involves the wholesale supply to retailers for sale to end consumers, while the 'commercial' sector involves wholesale supply to contractors fitting out new housing developments, offices and public buildings.
42. Headlam's 2017 Annual Report highlights some key features of its retail business to independent retailers, which are listed as:
  - (a) "Mitigating their need to hold stock with next-day and 'just in-time' delivery – allowing smaller premises and lower overheads";
  - (b) "Providing a comprehensive product range which is frequently refreshed";
  - (c) "Providing Point of Sale ('POS') materials and new product training when necessary to assist with marketing";

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<sup>10</sup> One internal document from Headlam distinguishes between soft and hard flooring, which broadly corresponds to the distinction between broadloom and palletised flooring.

(d) "Dedicated sales representative relationships, frequent visits and sophisticated CRM app to assist account management"; and

(e) "Provision of credit."

43. Multi-site retailers purchase similar products to independent retailers, as they also supply domestic customers. However, as described in the 2017 Annual Report, independent retailers have certain specific requirements (which may not be relevant to multi-site retailers).
44. Evidence from third parties supports the position that independent flooring retailers have specific needs. In particular, many third parties told the CMA that next-day delivery was essential to supplying independent retailers.
45. From a demand-side perspective, retailers and contractors typically purchase different products. In particular, retailers purchase broadloom products, while contractors rarely do; similarly, contractors have demands for safety matting, carpet tiles and other products which are rarely sold to retailers.
46. The available evidence also indicates that the scope for supply-side substitution by distributors, between supplying retailers and contractors, is likely to be limited. In particular, for the reasons described above, commercial flooring distributors cannot easily switch to supplying broadloom flooring. In practice, many suppliers of commercial flooring make some palletised sales to retailers. However, distributors that supply both broadloom and palletised flooring to independent retailers tend to make very few sales to contractors (if any at all).
47. Accordingly, for the reasons set out above, the CMA considers that it is appropriate to distinguish between the wholesale supply of flooring to independent retailers, the wholesale supply of flooring to multi-site retailers and the wholesale supply of flooring to contractors.
48. Headlam makes [redacted] sales to multi-site retailers. Rackhams makes less than £[redacted] in annual sales to multi-site retailers. The available evidence indicates that multi-site retailers typically have more supply options than those held by independent retailers (eg because they may have their own cutting equipment and storage facilities and are normally able to accept deliveries from manufacturers). In light of the Parties' limited supply to multi-site retailers, and the range of supply options held by such retailers, the supply of flooring to multi-site retailers is not considered further in this decision.
49. The CMA has nevertheless considered the constraint from multi-site retailers on independent retailers, to the extent relevant, within its competitive assessment.

### *Distributors versus other routes to market*

50. Evidence submitted by third parties indicates that, at least for independent retailers and contractors, supply by manufacturers is not a close alternative to the supply by a flooring distributor.
51. In particular, when presented with a multiple-choice question which asked customers what they would do if their current distributor of flooring were to raise its prices by five per cent, the majority of customers (contractors and independent retailers) that responded to the CMA's questionnaire did not indicate that they would 'buy from manufacturers'. While some customers noted the possibility of purchasing from manufacturers, others noted the longer delivery times (which are typically between 3-7 days) or the lack of accessories offered by manufacturers.
52. Some third parties also suggested that manufacturers are wary of harming their relationship with distributors when approached by customers (with one customer submitting that it was, as a result, effectively 'impossible' to buy directly from some manufacturers).
53. The CMA also notes that some customers, in particular independent retailers, have certain requirements (described above in paragraph 42) that are not met by manufacturers without a distribution network, broadloom storage facilities, carpet-cutting equipment or a comprehensive range of brands.
54. Therefore, the CMA has distinguished between the supply of flooring by manufacturers and distributors and, as the Parties only overlap in the distribution of flooring, assessed the effect of the Merger at the distribution level.
55. To the extent that manufacturers have distribution networks, storage facilities and carpet-cutting equipment for the supply of broadloom flooring, and offer a comprehensive range of brands, this has been taken into account within the CMA's competitive assessment.
56. To the extent that manufacturers supply multi-site retailers, and these multi-site retailers compete with the Parties' customers (ie independent retailers), this limits the ability of the Parties to worsen their terms to their customers. Therefore, the CMA has considered supply from manufacturers and multi-site retailers as an out-of-market constraint, to the extent relevant, within its competitive assessment.

## Conclusion on product scope

57. For the reasons set out above, the CMA has considered the impact of the Merger in the following product frames of reference:

- (a) The wholesale supply of broadloom flooring to independent retailers;
- (b) The wholesale supply of palletised flooring to independent retailers.

58. Rackhams made [redacted] of sales to contractors prior to January 2017. Headlam submitted that Rackhams [redacted].<sup>i</sup> Therefore, the CMA found that the Parties do not overlap in the supply of flooring to contractors and that the Merger does not raise competition concerns in relation to the supply of broadloom flooring to contractors. The supply of broadloom flooring to contractors is not considered further in this decision.

## Geographic scope

59. On its website, Rackhams states that it has a catchment area of 90 miles from its warehouse in east London. The page illustrates this using the map set out in Figure 1 below.

**Figure 1: Rackhams' catchment area**



## Distribution

We have a fleet of modern vans and trucks ready to deliver to you. Our drivers serve an area approximately 90 miles radius from our east London base every day, Stock orders placed by 4.00 PM will be delivered the next day. We also have a Sales team active across this wide area if you need a sample or advice contacts our area managers (for details go to our contacts page)

Source: <https://www.rackhamhousefloors.co.uk/>

60. The CMA notes that this area is broadly consistent with the locations of Rackhams' customers. In particular, data provided by Rackhams to the CMA indicates that it made 80% of its delivered sales within approximately [redacted] miles of its depot, and very few sales to customers over [redacted] miles away from its depot. This is consistent with Rackhams needing to meet its next day delivery guarantee, and with the population densities around Greater London.

61. Accordingly, the CMA proposes to assess the effects of the Merger in the wholesale supply of broadloom flooring to independent retailers in the catchment area.
62. Third parties told the CMA that palletised flooring products have lower margins than broadloom flooring and are often heavier, making distant deliveries more difficult. Accordingly, the CMA has assessed the wholesale supply of palletised flooring to independent retailers within the M25 area.
63. Given the national scale of Headlam, and the prospect that the acquisition of Rackhams could have been formed part of a strategy to enable an alternative purchaser to compete more effectively to compete at the national or regional level, the CMA has also assessed the effects of the Merger on the supply of broadloom flooring and palletised flooring across the UK.

#### *Conclusion on geographic scope*

64. For the reasons set out above, on a cautious basis the CMA has considered the impact of the Merger in the following geographic frames of reference:
  - (a) The wholesale supply of broadloom flooring to independent retailers within Rackhams' catchment area;
  - (b) The wholesale supply of palletised flooring to independent retailers within the M25; and
  - (c) The wholesale supply of (i) broadloom and (ii) palletised flooring in the UK.

#### *Conclusion on frame of reference*

65. For the reasons set out above, the CMA has considered the impact of the Merger in the following frames of reference:
  - (a) Wholesale supply of broadloom flooring to independent retailers within Rackhams' catchment area;
  - (b) Wholesale supply of palletised flooring to independent retailers within the M25 area; and
  - (c) Wholesale supply of flooring in the UK, including the wholesale supply of broadloom flooring and palletised flooring to independent retailers combined.

## Competitive assessment

66. 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.<sup>11</sup> Horizontal unilateral effects are more likely when the merging parties are close competitors. The CMA has assessed whether it is or may be the case that the Merger has resulted, or may be expected to result, in an SLC as a result of:
- (a) Horizontal unilateral effects in the wholesale supply of broadloom flooring to independent retailers within Rackhams' catchment area; and/or
  - (b) Horizontal unilateral effects in the wholesale supply of palletised flooring to independent retailers within the M25; and/or
  - (c) A loss of dynamic competition in the supply of broadloom flooring and palletised flooring to independent retailers across the UK, in particular by hindering the entry and/or expansion of a competitively significant force.

### ***Horizontal unilateral effects in the wholesale supply of broadloom flooring to independent retailers in Rackhams' catchment area***

67. The concern under this theory of harm is that the removal of one party as a competitor could allow the Parties to increase prices, lower quality and/or reduce the range of their products and/or services.
68. In order to assess the likelihood of the Merger resulting in unilateral effects, the CMA has considered:
- (a) Shares of supply within the Parties' catchment areas;
  - (b) The closeness of competition between the Parties; and
  - (c) Competitive constraints from alternative suppliers.

### *Shares of supply*

69. The Parties submitted that Headlam has a [%] market share in the supply of all UK flooring, on the basis of its £[£]m in purchases. The Parties did not, however, provide any estimate of their combined share of supply within the Rackhams catchment area.

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<sup>11</sup> [Merger Assessment Guidelines](#), from paragraph 5.4.1.

70. Table 1 below shows the CMA’s estimates of the shares of each of the Parties and other wholesale suppliers of broadloom flooring to independent retailers in Rackhams’ catchment area, based on value of sales data provided by the Parties and the other suppliers.

**Table 1: Estimated share (by 2017 sales revenue) in the wholesale supply of broadloom flooring to independent retailers, in Rackhams’ catchment area<sup>12</sup>**

Competitor	Market share
<i>Rackhams</i>	[0-5]%
<i>Headlam</i>	[40-50]%
<b>Combined</b>	<b>[40-50]%</b>
Valley	[20-30]%
Furlong	[20-30]%
STS	[0-5]%
PFC Flooring	[0-5]%
Total	100%

**Source:** CMA’s estimates based on Parties and third parties’ sales revenue estimates

71. The CMA estimated that the Parties have a combined share of [40-50]% in the wholesale supply of broadloom flooring in Rackhams’ catchment area.<sup>13</sup>
72. Shares of supply provide an indication of the scale of relative suppliers therefore are likely to be a general guide to their competitive strength.
- (a) The CMA considers that that these shares of supply show that Headlam is the largest supplier of broadloom flooring in Rackhams’ catchment area. One third party submitted that Headlam’s “dominance would allow them to increase prices”.
73. However, Rackhams is a relatively small distributor and that the increment in market share as a result of the Merger is very limited (at [0-5%]).

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<sup>12</sup> These shares have been constructed from the responses of Headlam and third parties, based on the sales of depots within Rackhams’ catchment area. Where only aggregate sales information has been provided (rather than depot-level information), sales have been divided evenly between a supplier’s depots.

<sup>13</sup> Some of the sales included in the above table are likely to be made to customers outside the catchment area. Similarly, sales from competitors outside the catchment area to customers within it have not been captured in this estimate

### *Closeness of competition*

74. The CMA examined the closeness of competition between the Parties and considered within the assessment:

- (a) similarity in the Parties' service proposition;
- (b) third party views on closeness of competition; and
- (c) evidence from internal documents;

### *The Parties' service proposition*

75. Headlam submitted that there are no particular features that distinguish the Parties from any other rivals and make them close competitors. The Parties stated that the vast majority of wholesale distributors in the UK offer the same key elements of the commercial offering – a broad range of products, credit facilities and next-day delivery – to independent retailers.

76. Headlam also told the CMA that offering a broad range has become a less important part of a distributor's offering to independent retailers. Headlam submitted that domestic customers of carpets are becoming less brand loyal and more focused on pricing, a trend driven by a narrowing of customer demand in relation to carpet colours and materials. Headlam submitted that has led to the carpet products of different manufacturers/brands becoming increasingly less differentiated and that, as a result, consumers do not expect retailers to store a broad range. Therefore, according to the Parties, wholesalers with a narrower range of brands are well-placed to compete.

77. The CMA found Headlam and Rackhams compete closely in the wholesale supply of Broadloom products within the area in which they overlap.

78. The available evidence indicates that the Parties' service offering is similar. More specifically:

- (a) Headlam is one of the largest distributors in the flooring distribution market with a very strong service proposition. AMA Research's 2018 Floorcoverings Report describes Headlam as 'the leading force in floorcoverings distribution in the UK'. Headlam's 2017 annual report describes its service proposition: 'Headlam enables suppliers to focus on economic manufacturing without having to replicate a costly distribution channel for their focused product portfolio. Headlam's distribution network ensures that customers receive products more efficiently and within the typically short timescales required, whilst also supporting suppliers with the positioning and marketing of their products.'



- (b) Rackhams, while a smaller single-depot business, provides a similar range of services: Rackhams has sales teams, exhibits and updates a wide range of products and provides credit in similar ways. Both Headlam and Rackhams make next-day deliveries, which some independent wholesale suppliers do not (although Rackhams has a much smaller delivery network than Headlam).
- (c) The Parties' premises is geographically close, with Rackhams being located close to Headlam's Halls depot. The CMA considers that this is likely to make the Parties closer competitors, particularly for those customers who collect their purchases themselves. The CMA notes, however that only a limited proportion (around [X]%) of Rackhams' sales are collected, and that less than [X]% of Halls' sales are collected by customers.

#### *Third party views on closeness of competition*

79. Around half of responses received from customers and competitors considered Headlam to be one of Rackhams' five closest competitors.<sup>14</sup> However, most of these same third parties did not consider Rackhams to be one of Headlam's five closest competitors;<sup>15</sup> indeed, none of the responses the CMA received from customers considered Rackhams to be one of Headlam's five closest competitors.<sup>16</sup>

#### *Internal documents*

80. The CMA has considered the extent to which the Parties view each other as close competitors based on their internal documents. The CMA found very few references to Rackhams in Headlam's internal documents that had been produced in the ordinary course of business (ie rather than in contemplation of the Merger). Rather, Headlam's internal documents tended to focus on other, larger competitors.<sup>17</sup>
81. Certain internal documents produced in contemplation of the Merger appear to suggest that it will enable Headlam to enhance its market position within

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<sup>14</sup> Five out of thirteen customers said that Headlam was one of Rackhams' top 5 competitors and seven out of fourteen competitors said that Headlam was one of Rackhams' top 5 competitors.

<sup>15</sup> Zero out of thirteen customers said that Headlam was one of Rackhams' top 5 competitors and four out of fourteen competitors said that Headlam was one of Rackhams' top 5 competitors.

<sup>16</sup> From around thirty responses from third parties, less than five considered Rackhams to be one of Headlam's five closest competitors.

<sup>17</sup> There were no Rackhams documents discussing any competitors.

the London area (and therefore that the Merger might result in the removal of a significant competitive constraint on Headlam). For example:

(a) The board paper describing the rationale for the acquisition of Rackhams submitted by Headlam suggests that it views the acquisition of Rackhams [REDACTED]

(b) An email from Headlam's commercial director to its COO, which formed part of a chain of emails which followed an approach from Rackhams' owners to Headlam regarding a potential sale, stated '[REDACTED]' (without any further context or description being provided in the email). The Parties submitted [REDACTED]

82. Certain internal documents also suggest that the range of products offered by Rackhams and Headlam are very similar (providing further support for the position set out above that the Parties' service offerings are similar). For example, in negotiations between Rackhams and Headlam in relation to the transaction, Rackhams' owner states that '[REDACTED]'

#### *Competitive constraints*

83. Unilateral effects are more likely where customers have little choice of alternative supplier. The CMA has considered whether there are alternative suppliers which would provide a competitive constraint on the combined entity.

84. The Parties identified a number of competitors in its response to the Issues Letter. These competitors were: Valley Wholesale, Furlong Flooring, STS, Carpet & Flooring, Columbia Flooring, Brookvale Limited and Lewis Abbott.

85. Out of the thirteen customers who responded to the CMA's questionnaire, seven raised concerns about the Merger. Four out of seven residential customers raised concerns about the impact of the Merger on competition. Customer concerns included: Headlam "now own all local competitors"; and "It is becoming increasingly difficult to find suppliers of some products".

86. Of the thirteen competitors who responded to the CMA's questionnaire, five raised concerns about the impact of the Merger on competition and the decreasing number of independent distributors.

87. The CMA considers that Carpet & Flooring, Columbia Flooring, Brookvale Limited and Lewis Abbott are unlikely to provide a significant competitive constraint on the Parties in broadloom flooring, as these competitors lack the key service features that Headlam and Rackhams offer and, in some cases, their sales of broadloom flooring are very limited.

88. The CMA found, however, that the Parties will continue to face competition from three large competitors, Furlong Flooring, Valley Wholesale and STS, as well as a number of smaller parties in the distribution of broadloom flooring within Rackhams' catchment area, as well as some manufacturers with distribution networks.
89. Furlong Flooring is a major national supplier of broadloom flooring. Furlong has multiple distribution depots; its large Dartford depot East of London competes with Rackhams and Headlam's local depots. Furlong is also identified as a competitor in several Headlam internal documents.
90. Valley Wholesale owns a large depot in Dartford in East London, which it expanded in 2017 and delivers on a national basis. Valley Wholesale is also identified as a competitor in several Headlam internal documents.<sup>18</sup>
91. While the business of STS is smaller than that of Furlong, Valley and Headlam, it is a supplier of a similar size to Rackhams in the distribution of broadloom flooring. It operates several depots throughout London. Several third parties consider STS to be a close competitor to Headlam and to Rackhams.
92. The Parties submitted an analysis of Rackhams' collection customers and found that [X]% would be within 30 miles of four or more suppliers, and [X]% would be within 20 miles of four or more suppliers. Although this analysis includes competitors which are differentiated from the Parties (for example, they lack carpet cutting machinery or delivery capabilities), for some customers these competitors will be suitable alternatives (and delivery capability, for obvious reasons, would not be a factor). This analysis suggests that the Parties face a number of competitors for customers for whom collection is important. The CMA notes that Columbia Flooring (one of the companies featured in the Parties' analysis), in particular, is close to Rackhams and Headlam's Halls depot.
93. Further, the CMA considers that the Parties will face some competitive constraint from manufacturers which operate distribution networks that can meet the needs of independent retailers. For example, Victoria is a manufacturer of carpets and operates a distribution business with UK depots, including one in North West London. However, the evidence the CMA has seen is that Victoria is differentiated from typical distributors, because of its limited network and narrower range of brands, and differentiated from the Parties by its higher priced products.

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<sup>18</sup> For example, [X]

94. Therefore, the CMA considers that the Parties face significant competitive constraint from Furlong, Valley Wholesale, STS and PFC Flooring, as well as some manufacturers with distribution networks.

*Third party comments*

*Out of market constraints*

95. The Parties submitted that they also face significant competitive constraints from manufacturers, and from suppliers located outside Rackhams' catchment area.
96. The CMA notes that the Parties may be constrained by manufacturers without a developed distribution network through indirect competition. Manufacturers directly supply multi-site retailers, which have their own distribution networks, and these multi-site retailers compete (to some extent) with independent retailers. If the Parties were to raise their prices (or otherwise worsen their terms of supply) to independent retailers, these independent retailers might pass this on to their customers, and as a result they might lose sales to multi-site retailers. This could, in theory, prevent the Parties from raising their prices in the first place.
97. While the CMA notes that there may be out-of-market constraints on the Parties from manufacturers and competitors outside of the frame of reference, the CMA has not needed to conclude on the strength of these constraints, as it has found that sufficient competitive constraints will remain post-Merger from direct competitors to the Parties within the geographic market.

*Conclusion on horizontal unilateral effects*

98. For the reasons set out above, the CMA believes that, while there is a significant degree of competitive interaction between the Parties, the overall change in market structure brought about by the Merger is limited (in particular because the increment in share of supply is small) and that the merged entity will continue to be constrained by a sufficient number of credible competitors.
99. Accordingly, the CMA has found that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the wholesale supply of broadloom flooring in Rackhams' catchment area.

**Horizontal unilateral effects in the wholesale supply of palletised flooring to independent retailers within the M25**

100. The concern under this theory of harm is that the removal of one party as a competitor could allow the Parties to increase prices, lower quality and/or reduce the range of their products and/or services.
101. In order to assess the likelihood of the Merger resulting in unilateral effects, the CMA has considered:
- (a) Shares of supply within the Parties' catchment areas;
  - (b) The closeness of competition between the Parties; and
  - (c) Competitive constraints from alternative suppliers.

*Shares of supply*

102. Table 2 below shows the CMA's estimates of the shares of each of the Parties and their competitors in the wholesale supply of palletised flooring to independent retailers, within the M25, by value.

**Table 2: Estimated share (by 2017 sales revenue) in the wholesale supply of palletised flooring to independent retailers within the M25<sup>19</sup>**

Competitor	Market share
<i>Rackhams</i>	[10-20]%
<i>Headlam</i>	[20-30]%
<b>Combined</b>	<b>[30-40]%</b>
Brookvale Group	[20-30]%
STS	[10-20]%
Valley Wholesale	[10-20]%
PFC Flooring	[5-10]%
Carpet and Flooring	[0-5]%
Total	100%

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<sup>19</sup> These shares of supply have been constructed from the responses of Headlam and third parties, based on the sales of depots within Rackhams' catchment area. Where only aggregate sales information has been provided (rather than depot-level information), sales have been divided evenly between a supplier's depots.

**Source:** CMA's estimates based on Parties and third parties sales revenue estimates

103. The merged entity with Brookvale and Furlong would be the three largest providers of supplies of palletised flooring to independent retailers in London, with a combined share of [30-40]%, with the Merger resulting in an increment of [10-20]%. However, there are four competitors with a market share of at least 5%, and who therefore are likely to be material competitors.<sup>20</sup>
104. The CMA notes, in particular, that Furlong Flooring, which would be the largest competitor by share of supply if it were included in the above analysis, has a depot in Dartford (near a Headlam depot, and Valley Wholesale's depot), just outside the M25. In practice, Furlong's geographic location makes it a close competitor to the Parties, and its exclusion from the set of competitors listed in Table 2 above suggests that these share of supply estimates are likely to overstate the merged entity's competitive significance.

#### *Closeness of competition*

105. The CMA has examined the closeness of competition between the Parties and considered within the assessment:
- (a) similarity in the Parties' service proposition;
  - (b) third party views on closeness of competition; and
  - (c) evidence from internal documents;

#### *The Parties' service proposition*

106. With regard to service proposition in general, the findings from the supply of broadloom flooring apply to the supply of palletised flooring (ie that the Parties compete closely with similarly products and features of service).
107. The CMA notes that Headlam is in close proximity to Rackhams in North London. STS and Carpet and Flooring are the closest similar competitors (ie with warehouses and next day delivery capability) to the Parties' North London depots, but are some distance away from Enfield where the Parties are based.
108. Geographic proximity indicates that the Parties are close competitors, in particular for the independent retailers in North London that collect their

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<sup>20</sup> Some of the sales included in the above table are likely to be made to customers outside the catchment area. Similarly, sales from competitors outside the catchment area to customers within it have not been captured in this estimate.

products. However, collection customers only represent [~~8~~] % of Rackhams' sales.

#### *Third party views on closeness of competition*

109. Around half of responses received from customers and competitors considered Headlam to be one of Rackhams' five closest competitors.<sup>21</sup> However, most of these same third parties did not consider Rackhams to be one of Headlam's five closest competitors.<sup>22</sup> None of the responses the CMA received from customers considered Rackhams to be one of Headlam's five closest competitors.<sup>23</sup>

#### *Internal documents*

110. The CMA has considered the extent to which the Parties view each other as close competitors based on their internal documents. As the documents described in paragraphs 80-82 are likely to cover both palletised flooring and well as broadloom flooring, the CMA considers that these documents also indicate a significant degree of competitive interaction between the Parties within this product segment.

#### *Competitive constraints*

111. Headlam submitted that, in addition to the wholesale suppliers identified in Table 2 above, the merged entity will be constrained by sales from suppliers located outside and inside Rackhams' catchment area who sell significant volumes into the area, such as Salesmark, Solent, DMS Flooring Supplies, and Likewise (which has two businesses in Suffolk, as well as its recent acquisition of Lewis Abbot within the M25 area) and other regional distributors, national distributors and manufacturers.
112. The CMA considers that the Parties face competition within the M25 area from a number of competitors. This includes three large competitors, Brookvale, STS and Valley Wholesale, as well as a number of smaller companies.
113. Brookvale is the largest supplier in this market. Several third parties noted that its Planners business in North London is a close competitor of the Parties.

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<sup>21</sup> See footnote 14.

<sup>22</sup> See footnote 15.

<sup>23</sup> From around thirty responses from third parties, less than five considered Rackhams to be one of Headlam's five closest competitors.

114. STS sells a wide variety of products from multiple depots across London. Although its focus is on commercial customers, it also makes sales to residential customers.
115. Valley Wholesale supplies a variety of palletised products, focusing in particular on underlay, from its large depot in East London.
116. In addition, the CMA notes that Furlong's large Dartford depot east of London competes closely with Rackhams' and Headlam's local depots.
117. As described above, the Parties' analysis of Rackhams' collection customers found that [X]% would be within 30 miles of four or more suppliers, and [X]% would be within 20 miles of four or more suppliers, suggesting that competitors exist in close proximity to the Parties.
118. Therefore, the CMA considers that the Parties face significant competitive constraint from three main distributors and a number of small competitors. Considering the strength of these constraints overall, the CMA considers that customers will have sufficient alternatives post-Merger.
119. As with broadloom flooring, additional out of market constraints may also constrain the Parties, but the CMA has not needed to conclude on their strength.<sup>24</sup>

#### *Conclusion on horizontal unilateral effects*

120. For the reasons set out above, the CMA believes that while there is a significant degree of competitive interaction between the Parties, the overall change in market structure brought about by the Merger is limited (in particular because the increment in share of supply is small) and the merged entity will continue to be constrained by a sufficient number of credible competitors (including some located outside of the M25 area). The merged entity will also continue to face competition, at least to some extent, from direct sales from manufacturers.
121. Accordingly, the CMA has found that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the wholesale supply of palletised flooring to independent retailers within the M25 area.

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<sup>24</sup> The CMA notes that several of the other suppliers referred to by the Parties, such as Solent Wholesale and Salesmark, are well outside Greater London.



### ***Dynamic effects in the wholesale supply of flooring in the UK***

122. The CMA has assessed whether the Merger may result in a loss of dynamic competition in the supply of broadloom flooring and palletised flooring to independent retailers across the UK, in particular by hindering the entry and/or expansion of a competitively significant force.
123. The concern under this theory of harm is that Headlam's acquisition of Rackhams may block or deter the entry and or expansion of a competitor that, absent the Merger, might have acquired Rackhams, and, by achieving a wider coverage and benefiting from economies of scale, would compete more effectively with Headlam on a regional or national basis.
124. In assessing this theory of harm, the CMA has considered:
  - (a) Evidence relating to the current conditions of competition at the national and regional level;
  - (b) Whether Rackhams would have been acquired by a competitor absent the Merger; and
  - (c) Whether Rackhams is a strategically significant asset that could have a material impact on a supplier's ability to compete, in particular through entry or expansion, at the national or regional level.

### ***Parties' submissions***

125. Headlam submitted that the Merger will not hinder the entry or expansion by other competitors looking to expand, mainly because:
  - (a) Headlam does not have market power at a national level;
  - (b) There is no evidence of any exclusionary intent in any of Headlam's internal documents relating to the Merger;
  - (c) There are multiple opportunities for other suppliers to expand in London, either through acquisition or organic growth;
  - (d) Rackhams is not significant enough to form an important route to expansion on a national basis. It does not have any particular characteristics which indicate that a third party unable to acquire Rackhams and/or Garrod Bros would find it more difficult to expand in national terms; and
  - (e) The fact that one of the Parties' national competitors, Likewise, has acquired a business in London since the completion of the Rackhams and

Garrod Bros acquisitions shows that Headlam's acquisitions have represented no bar to a national competitor seeking to expand its presence.

*Conditions of competition at the national or regional level*

126. The CMA assessed whether the entry or expansion of an additional competitor at the national or regional level would be liable to lead to greater competition within that segment. In assessing competitive conditions within this segment (and, in particular, whether Headlam may face limited competition nationally or in some regions), the CMA considered three main sources of evidence:

- (a) Headlam's nationwide shares of supply, based on figures provided in the *AMA Floorcoverings Report* and Headlam's own estimates;
- (b) Headlam's internal documents; and
- (c) Third party views.

*Shares of supply*

127. The Parties submitted that Headlam has a [%] share in the supply of all UK flooring, on the basis of its £400m in purchases. The CMA noted, however, that these estimates (which the CMA understands were produced for the purposes of the Merger investigation) were not consistent with evidence from Headlam's internal documents, which suggested that Headlam's market share at the national level – at [%] market share (rising from [%] five years ago) – was materially higher.
128. The available evidence also suggests that Headlam's market position may be particularly significant within certain segments, such as the supply of broadloom flooring to independent retailers in the UK. The CMA estimates that Headlam's purchases of domestic flooring would represent 60-70% of the supply of domestic flooring to independent retailers, using estimates from AMA Research's 2018 floorcoverings report.<sup>25</sup>

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<sup>25</sup> The 2018 AMA Floorcoverings Report states that manufacturers made £1.23 billion in sales in 2017 to retail suppliers of residential flooring. Headlam estimated its own 2017 sales of residential flooring at £[%] million. Headlam's 2018 annual report states that '[i]ndependent retailers and flooring contractors comprise the vast majority of the Company's customer base and accounted for almost 90% of the Company's UK revenue in 2017.' Assuming that 90% of Headlam's residential sales are to independent retailers, Headlam made £[%] million in sales to independent retailers. The 2018 AMA Floorcoverings Report states that independent retailers account for 31% of sales (by value) of the overall £1.23 billion residential flooring market.

129. On this basis, the CMA considers that the shares of supply submitted by Headlam are likely to materially underestimate its position at the national level.

*Headlam's internal documents*

130. Headlam's internal documents repeatedly describe its 'dominance' and 'market-leading position' (albeit without identifying any specific segments within which it considers that its position is particularly strong). For example:
- (a) Headlam's 2017 annual report notes its '*market-leading position, significant scale and longevity of operations*', commenting that its '*nearest competitors [are] currently approximately 1/6th of [Headlam's] size in terms of revenue*'.
  - (b) Headlam's 2018 interim report describes Headlam as '*Europe's largest distributor of floorcoverings*'.
  - (c) An email from Headlam's internal management describes its [redacted]
131. Together, these documents suggest that Headlam considers itself to hold a particularly strong position within the wholesale supply of flooring within the UK.

*Third party views*

132. Several third parties described Headlam as 'dominating' the market. Competitors commented that Headlam's buying power made it difficult to compete with (except to the extent that Headlam's high margin expectations allowed other suppliers to compete on price).
133. Several third parties told the CMA that Headlam had increased its prices since 2016 and that there are significant barriers to entry and expansion for suppliers seeking to compete on a national basis (as described further in paragraphs 148 to 152 below).

*Conclusion on conditions of competition at the national or regional level*

134. Based on the evidence described above, the CMA considers that Headlam holds a strong position across the wholesale supply of flooring in the UK and that the constraints on Headlam within this segment may be limited.

*Whether Rackhams would have been acquired by a competitor, absent the Merger*

135. As explained above in the Counterfactual section (see paragraphs 20 to 25 above), the CMA considered evidence relating to recent market developments and submissions from a number of third parties. The CMA found that certain players active at a national or regional level ([REDACTED]) would have been plausible alternative purchasers for the Rackhams business. The CMA considers that this would have been more competitive than the prevailing conditions of competition because it could have enabled the purchaser to compete more effectively (including against Headlam) at the national or regional level.

*Whether Rackhams is a strategically significant asset that could have a material impact on a supplier's ability to compete at the national or regional level*

136. Several third parties told the CMA that they believed that the rationale for the acquisition of Rackhams was to stop a competitor from acquiring it (with the suggestion that this was to prevent the emergence of a broader competitive force in the wholesale supply of flooring across the UK).
137. The Parties submitted that [REDACTED]. The CMA has, nevertheless, considered whether the Merger could have the effect of hindering the entry and/or expansion of a competitively significant force at the national or regional level.
138. In considering the impact of the Merger on a prospective purchaser's ability to compete with Headlam at the national level, the CMA has assessed the importance of Rackhams for the expansion of a competitor in order to become an effective competitor regionally or at national level.
139. The CMA notes that there is evidence that economies of scale are important for the competitiveness of flooring distributors in terms of (i) purchasing power, (ii) economies of density, and (iii) geographic reach.
140. Economies of scale are potentially beneficial if passed on to customers (although if one large supplier prevented its competitors from also benefitting from scale economies through acquisition, this could weaken competitive constraints on the large supplier).
141. Headlam's internal documents repeatedly imply that it is very difficult and would take a long time for a competitor to achieve organically a distribution network similar to Headlam's current network, by virtue of its size:
- (a) Headlam's 2017 Annual Report notes that 'the Company's extensive distribution network has been established over the last 25 years through considerable financial investment and technical and operational expertise and represents a significant barrier to entry to competitors and potential

new entrants. It currently comprises over 67 million cubic feet of warehouse capacity and its value is underpinned by property, plant and equipment assets totalling £101.6 million'. Similarly, the Annual Report notes that Headlam's distribution network would take 'significant time and resources to replicate'. A statement by its Chairman repeats that there are 'significant barriers to entry created through years of investment and development of operational expertise'.

(b) A document describing [REDACTED].

142. This is supported by evidence from Headlam's internal documents, which indicate that the main route to expansion at the level would be through acquisition. For example, a Headlam strategy document notes that it is [REDACTED].<sup>26</sup>

143. The evidence on whether Rackhams is a strategically significant asset within the context of a national or regional expansion strategy is mixed.

144. On the one hand, a Headlam board paper notes that [REDACTED] Rackhams' sales of broadloom products are the highest of any single-depot competitor in London, and it supplies a wide range of such products.

145. On the other hand, other evidence suggests that Rackhams is not a strategically significant asset within this context. In particular:

(a) While Rackhams itself is a well-established business in the distribution of flooring to independent retailers, it ultimately accounts for only a small part of the local and national market. The most important factor in expansion is achieving scale and access to a relevant network. Rackhams' sales constitute a very small part of the UK market and, given its size and limited network, Rackhams' acquisition would not have a material impact on a competitor's ambitions of achieving scale.

(b) Other suppliers, including those seeking to expand their presence nationally, told the CMA that the acquisition of Rackhams would have formed only a [REDACTED]).

(c) There is no other evidence to suggest that the Rackhams business is strategically significant in any way. For example, there appear to be other plausible potential acquisition targets in London for a competitor looking to expand through acquisition, albeit without the full range and capabilities of Rackhams in some cases. The consideration paid by Headlam for Rackhams [REDACTED].

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<sup>26</sup> ('Updated Strategy', November 2018).

146. For the reasons given above, the CMA considers that there is no realistic prospect that the acquisition of Rackhams would be of strategic importance for a competitor's ability to gain scale and compete effectively at national or regional level.

*Conclusion on a loss of dynamic competition in the wholesale supply of flooring in the UK*

147. For the reasons set out above, the CMA believes that the CMA considers that the available evidence does not support the position that the Rackhams business is a strategically significant asset within the broader supply of broadloom flooring and palletised flooring at the national or regional level, and therefore that the acquisition of Rackhams by Headlam does not hinder the entry and/or expansion of a competitively significant force at the national or regional level.

***Barriers to entry and expansion***

148. 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. In assessing whether entry or expansion might prevent an SLC, the CMA considers whether such entry or expansion would be timely, likely and sufficient.<sup>27</sup>
149. The evidence from third parties does not indicate that entry or expansion will be timely, likely or sufficient to mitigate any SLC arising.
150. Evidence from Headlam's internal documents also show that there are high barriers to entry in the wholesale flooring distribution sector, as described above.
151. Therefore, the CMA believes that there could be significant barriers to entry and expansion in the wholesale supply of flooring in the UK.
152. However, the CMA has not had to conclude on barriers to entry or expansion as the Merger does not give rise to competition concerns on any basis.

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<sup>27</sup> [Merger Assessment Guidelines](#), from paragraph 5.8.1.

## Decision

153. 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.

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

**Colin Raftery**  
**Senior Director, Mergers**  
**Competition and Markets Authority**  
**28 March 2019**

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<sup>i</sup> The Parties have submitted that Rackhams made [REDACTED] one-off sale to a contractor [REDACTED] in 2018 [REDACTED].