

Completed acquisition of E.M.A. Computer Solutions (2018) Limited by ARMS Business Solutions Limited

Decision on relevant merger situation and substantial lessening of competition

ME/6792/18

The CMA's decision on reference under section 22(1) of the Enterprise Act 2002 given on 26 April 2019. Full text of the decision published on 7 June 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 1 April 2019, ARMS Business Solutions Limited (**ARMS**) acquired E.M.A. Computer Solutions (2018) Limited (**EMACS**) (the **Merger**). ARMS and EMACS 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 ARMS and EMACS 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 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 overlap in the independent supply of bodyshop management software (**BM software**) to bodyshop operators in the UK. ARMS licenses a cloud-based BM software product and EMACS licenses non-cloud-based BM software products. The Parties submitted that there is demand-side substitutability between cloud-based and non-cloud-based BM software products in the UK. Evidence received from third parties supports this. Evidence from third parties also demonstrates that proprietary, in-house BM software products do not impose a significant constraint on the independent

supply of BM software in the UK. The CMA has therefore assessed the impact of the Merger in the independent supply of BM software in the UK.

4. The CMA investigated whether the Merger would give rise to horizontal unilateral effects in the independent supply of BM software in the UK. The CMA has found that the Merger does not give rise to competition concerns because the Parties currently are not close competitors, there is little existing competition between the Parties, and other BM software suppliers exert a stronger competitive constraint on the Parties than they do on each other. Post-Merger, the merged entity will continue to face competitive constraints from a number of other suppliers of BM software.
5. The CMA has also assessed whether the Merger gives rise to conglomerate effects. Specifically, the CMA has assessed whether, as a result of the Merger, the merged entity could foreclose access to the Common Automotive Platform Standard (**CAPS**), a secure data conduit, used for the secure transmission of data between BM software systems and insurance providers' platforms, by customers of competing BM software suppliers, in order to cause those customers to switch to the merged entity's BM software. The CMA has found that the merged entity will not have the ability, post-Merger, to foreclose competition in this way.
6. The Merger will therefore **not be referred** under section 22(1) of the Enterprise Act 2002 (the **Act**).

ASSESSMENT

Parties

7. ARMS is a wholly owned subsidiary of Enterprise Rent-A-Car UK Limited, whose ultimate parent is The Crawford Group, Inc. [~~✗~~]. In the UK, ARMS licenses software and provides ancillary services to the automotive repair industry through its wholly-owned subsidiary Bodyshop Management Systems Limited (**BMS**). BMS's principal product offering is the 'Eclipse' BM software system. ARMS also owns CAPS, which is an industry standard communication platform, used by around 60% of bodyshops, that facilitates the secure transfer of information between bodyshops' BM software systems and insurance companies / other work-providers and end users, via middleware platforms.
8. ARMS is party to a reseller agreement for other software products which are owned by wholly owned subsidiaries of Enterprise Holdings, Inc., though none

of these products overlaps with the activities of EMACS.¹ The UK turnover of ARMS in respect of sales of BM software in the financial year ended 31 July 2018 was £[REDACTED].

9. EMACS designs and supplies software to the bodyshop industry. It offers two BM software products, 'Business Manager' and 'Bodyshop Manager'.²
10. EMACS was established by E.M.A. Computer Solutions Limited (the **Seller**) in January 2018 and the business and operational assets of the Seller were subsequently transferred to EMACS in June 2018 in preparation for the disposal of EMACS. The Seller is a privately-owned company which was established approximately 22 years ago and developed EMACS's portfolio of software products for use in bodyshops. The turnover attributable to the assets which represent the business of EMACS in the year ended 30 September 2018 was £1,605,750, of which £1,310,288 was attributable to the supply of BM software.

Transaction

11. Under the Merger, ARMS acquired the entire issued share capital of EMACS on 1 April 2019 for consideration of [REDACTED].
12. ARMS's stated rationale for the Merger is that it will allow the merged entity to grow its customer base, generate efficiencies and synergies in areas including software development and overall costs, enhance product development and innovation³ and increase competition within the market for BM software by imposing more of a competitive constraint upon the largest UK supplier of BM software.
13. The Seller's rationale for the merger is the retirement of the two founding shareholders of the Seller.
14. The Parties informed the CMA that the Merger has not been notified in any other jurisdiction.

¹ This includes a reseller licence for a middleware product called 'Performance Gateway', which is a vendor quality compliance and management platform. In addition to Eclipse, BMS also has a reseller licence for claims management software called 'Fusion'. Fusion does not overlap with the Parties' respective BM software products.

² It also offers a separate product called 'Invoice Manager', which is not a substitute for BM software.

³ This is supported, for example, by ARMS's internal document 6.1 [REDACTED] which states that: [REDACTED].

Jurisdiction

15. Each of ARMS and EMACS is an enterprise. As a result of the Merger, these enterprises have ceased to be distinct.
16. The UK turnover test is not met because the turnover of EMACS does not exceed £70 million.
17. The Parties overlap in the supply of BM software, with a combined share of supply of [30-40]% by volume (an increment of [10-20]%).⁴ The CMA therefore believes that the share of supply test in section 23 of the Act is met.
18. The Merger completed on 1 April 2019 and so the four-month deadline for a decision under section 24 of the Act is 1 August 2019.
19. The CMA therefore believes that it is or may be the case that a relevant merger situation has been created.
20. The initial period for consideration of the Merger under section 34ZA(3) of the Act started on 7 March 2019 and the statutory 40 working day deadline for a decision is therefore 3 May 2019.

Counterfactual

21. 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

⁴ The Parties submitted market share data setting out their shares of supply by value and by volume of (i) the independent UK supply of BM software; and (ii) total UK supply of BM software, which also takes account of proprietary BM software which has been developed by a bodyshop / bodyshop group in-house, rather than being provided by an independent supplier such as the Parties. In the absence of accurate, published data on the value of sales of BM software in the UK, the Parties' share of supply figures by value were calculated based on the Parties' reasoned estimates of the average value of BM software per customer location. The Parties' combined share of supply ranges between [20-30]% and [30-40]% when calculated according to each of these metrics and so meets the share of supply test in section 23 of the Act on any basis. The Parties' shares of supply are considered further in the competitive assessment.

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).

22. The Parties submitted that, absent the Merger, EMACS would have been sold to another party, as the two Director Shareholders wish to retire. Given there is no evidence that such an alternative purchaser would have led to different conditions of competition from those pre-Merger, the CMA has taken the pre-Merger conditions of competition to be the relevant counterfactual.

Background

23. The Parties supply their BM software products to bodyshops, which are businesses that undertake repairs to the bodywork of motor vehicles which have been damaged in collisions or in other ways. Much of the work undertaken by bodyshops originates from motor insurance companies, which arrange repairs to their policyholders' vehicles.
24. BM software is used in the operation and management of bodyshops and handles all the main administration tasks in the repair process, such as booking vehicles into the bodyshop, dealing with claims, estimating, ordering of parts, generation of invoices and integration with secure data conduits such as CAPS.
25. The Parties' BM software is licensed to bodyshops in return for a monthly licence fee. The Parties submitted that EMACS's BM software is [X] than ARMS's Eclipse product and explained that whilst BM software is generally comparable between different suppliers, a key difference between the Parties' offerings is that ARMS's Eclipse product is a cloud-based system, whereas EMACS's BM software products are not cloud-based.
26. ARMS estimates that there are approximately 2,300 bodyshops in the UK which undertake work on behalf of major motor insurance companies⁶ and which are sufficiently sophisticated that they would benefit from the use of BM software. Of these, ARMS estimates that approximately 1,415 use BM software from an independent provider such as the Parties, with a further 200 using proprietary or in-house BM software.
27. Bodyshops undertaking a significant volume of repair work, particularly those undertaking work on behalf of motor insurance companies, require information to be regularly communicated between the bodyshop and the insurance company or other work provider and third parties such as car hire companies which provide courtesy cars to individuals whose vehicles are being repaired. BM software allows bodyshops to keep track of and communicate to these

⁶ Trend Tracker Limited's report "*The Future of the UK Car Body Repair Market 2019 – 2024*" broadly supports this figure, as it states that it estimates there to be 2,280 bodyshops within the UK that undertake the majority of insurer-funded work.

external parties matters such as which vehicles are being repaired, where the vehicle is in the repair process, estimates of repair costs, when the vehicle will be ready for collection and, in the case of multi-site bodyshops, at which site the vehicle is being repaired.

28. EMACS has been active in the supply of BM software in the UK for around 22 years. ARMS entered the market in 2015 when it purchased existing BM software supplier BMS. As part of that transaction, ARMS also acquired CAPS (see paragraph 7 above).
29. Middleware platforms are complementary to, but do not overlap with, or provide the same functions as, BM software. Rather, these platforms are used by insurance companies and work providers to manage the deployment, progression and tracking of repair claims within a repair network. As with BM software, there are a range of middleware products available in the market, including Performance Gateway, for which ARMS has a reseller licence.
30. Several of the largest BM software suppliers, such as Autoflow and PPG, also offer middleware platforms.⁷ These platforms interact with BM software via a data conduit such as CAPS, or an alternative to CAPS, such as a direct connection between the middleware platform and BM software system. Widespread interoperability means that, for example, the Parties' BM software is able to interact with middleware platforms supplied by other companies. Likewise, CAPS and alternative communication links such as Audaconnect by Audatex are able to connect with the Parties' BM software and that of multiple other suppliers.
31. The Parties submitted that CAPS is used by 60% of bodyshops in the UK. ARMS explained to the CMA that it purchased CAPS in order to ensure long-term connectivity due to concerns that another purchaser might seek to restrict access to CAPS and use it to its own advantage, to the exclusion of others in the market. Since its acquisition of CAPS through ARMS, Enterprise has established an independent national advisory council to ensure the independent running and open access of CAPS to all mainstream BM software systems, middleware and insurers' platforms.

⁷ These platforms, such as Activeweb by PPG and Repex by Autoflow, are used by insurance companies and other work providers and third parties involved in the repair process to manage the deployment, progression, and tracking of repair claims within a repair network. The network itself may comprise multiple bodyshops using different suppliers' BM software, who are able through a data conduit such as CAPS, to communicate with insurers.

Frame of reference

32. 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.⁸
33. The Parties overlap in the supply of BM software in the UK.

Product scope

34. The Parties submitted that the narrowest candidate market in this case is the development and supply of independent BM software.

Alternatives to BM software

35. The Parties explained that BM software tends to be used alongside other software applications with a narrower, more specific purpose, such as specialist estimating or invoicing software. Whilst the Parties consider that some of these products may provide a partial overlap to some features of BM software, the Parties submitted that BM software is of itself a bespoke product designed specifically for managing all the key administrative aspects of the repair process in a bodyshop setting. As such, the Parties consider that there are no direct substitutes for BM software.
36. When asked to name alternatives to their current BM software system, unprompted, no third parties named software products which are not specifically BM software.⁹

Cloud-based vs non-cloud-based functionality

37. BMS's Eclipse BM software is cloud-based, whereas EMACS's Bodyshop Manager and Business Manager products are not. The Parties explained that a cloud-based system does not require specific servers or computers to be

⁸ [Merger Assessment Guidelines](#), paragraph 5.2.2.

⁹ One third party which operates a group of bodyshops as well as a large, multi-site car sales business referred to dealer management software product 'Kerridge' as offering some overlap with BM software. The third party explained, however, that this type of software focuses on parts management, car sales and accounts and does not produce the necessary data and statistics required by bodyshops. The third party explained that if this type of dealer management software was implemented across its group, the bodyshop division would still require BM software to run alongside it.

located at each site at which the BM software is deployed and that software updates need only be applied once, rather than individually at each deployment location. Cloud-based functionality also allows for a repair job to be transferred more easily between multiple sites within a bodyshop group. The Parties further submitted that cloud-based functionality makes Eclipse better-suited to multi-site bodyshops, such as insurer-approved groups, whilst EMACS's BM software is more suitable for single-site bodyshops, such as manufacturer-approved franchised bodyshops.

38. Notwithstanding the particular features of cloud-based and non-cloud-based BM software and their suitability to different types of bodyshop customer, the Parties submitted that each of their respective BM software products is supplied to both single-site and multi-site bodyshop customers. Several bodyshop operators named both cloud-based and non-cloud-based BM software as possible alternatives to their current BM software system. Likewise, BM software supplier Audatex, which offers a cloud-based system, told the CMA that it considers itself to compete equally closely with both ARMS and EMACS.

Supply of BM software by independent suppliers vs proprietary BM software

39. ARMS submitted that, based on its market intelligence, of the approximately 1,615 UK bodyshops which purchase BM software, around 200 use a proprietary product, rather than one supplied by a specialist, independent supplier such as the Parties. ARMS submitted that these proprietary systems are typically developed by large bodyshop groups and insurance companies which operate their own bodyshops and that they pose a significant competitive constraint on independent suppliers of BM software, such as the Parties.
40. During its investigation the CMA engaged with a range of third parties, including commercial suppliers of BM software, large, multi-site bodyshop groups, independent, single-site bodyshop operators and insurance companies. One third party, [REDACTED], mentioned that the [REDACTED] bodyshop group in the UK, [REDACTED], has its own, in-house BM software system, but explained that the cost and resource required to build and maintain such a system significantly limits the number of parties willing or able to do so.
41. [REDACTED]. [REDACTED] had not ruled out developing its own in-house BM software, but explained that this would be a very expensive option and instead promotes BM software from independent suppliers to its franchisees. No third parties, who the CMA engaged with in its investigation, including a major insurance company, told the CMA that they would consider developing their own, in-house BM software. Several third parties cited, in particular, the prohibitive

upfront and ongoing costs and complexity of developing and maintaining an in-house BM software system.

42. Some larger bodyshop operators explained that when they require specific updates to or increased functionality from their BM software system, to meet the particular needs of their business, they liaise with their independent supplier of BM software to propose the addition of these features. The Parties explained that they can and do implement additional features into their respective BM software products to address such requests from their customers, where appropriate.
43. In light of this evidence, the CMA believes that the development of new, proprietary systems is unlikely to be sufficiently large to render unprofitable a price rise by a hypothetical monopolist of independent BM software.¹⁰
44. Based on the available evidence, the CMA has not included proprietary, in-house BM software in its frame of reference but has taken account of in-house supply as a potential out-of-market constraint in its competitive assessment.

Conclusion on product scope

45. For the reasons set out above, the CMA has considered the impact of the Merger on the independent supply of BM software to bodyshops, including both cloud-based and non-cloud-based BM software.

Geographic scope

46. The Parties submitted that the geographic frame of reference for BM software is at least national, encompassing the UK and the Republic of Ireland. The Parties submitted that it may in fact be wider due to limited impediments to making BM software available internationally. The Parties acknowledged, however, that sales of BM software by UK suppliers have historically been limited mostly to the UK and Republic of Ireland.¹¹
47. The Parties both supply BM software to bodyshop operators across all areas of the UK and offer centralised support to customers. The CMA has seen no evidence to suggest that there is any differentiation in the Parties' offering according to a customer's location within the UK.

¹⁰ [Merger Assessment Guidelines](#), paragraph 5.2.20, bullet-point 4.

¹¹ [REDACTED].

48. The CMA notes that evidence from third parties suggests that EMACS's BM software is not available in the Republic of Ireland, nor are the BM software products of certain other UK suppliers.

Conclusion on geographic scope

49. For the reasons set out above, on a cautious basis, the CMA has considered the impact of the Merger in the UK.

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:

- The independent supply of BM software to bodyshops in the UK.

51. However, it was not necessary for the CMA to reach a conclusion on the precise frame of reference as no competition concerns arise on any plausible basis.

Competitive assessment

Horizontal unilateral effects

52. 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.¹² Horizontal unilateral effects are more likely when the merging parties are close competitors.

53. 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 in relation to horizontal unilateral effects in the independent supply of BM software in the UK. The CMA has considered: the Parties' shares of supply; the closeness of competition between the Parties; and the competitive constraints which will exist post-Merger.

Shares of supply

54. The Parties submitted that their combined share of supply of independently supplied BM software to bodyshops in the UK and the Republic of Ireland¹³

¹² [Merger Assessment Guidelines](#), from paragraph 5.4.1.

¹³ The Parties did not submit a breakdown of shares of supply on this basis for the UK only.

was around [30-40]% by volume,¹⁴ with an increment of [10-20]% (as shown in Table 1, below).

Table 1 – Share of supply of independently supplied BM software in the UK and Republic of Ireland

BM software¹⁵	Locations	Share of supply
ARMS/BMS (Eclipse)	[REDACTED] ¹⁶	[10-20]%
EMACS (Bodyshop Manager / Business Manager)	[REDACTED]	[10-20]%
PPG (Advance)	[REDACTED]	[20-30]%
Autoflow (4:G)	[REDACTED]	[30-40]%
Autosoft	[REDACTED]	[0-5]%
Bodynet	[REDACTED]	[0-5]%
Others	[REDACTED]	[0-5]%
Total	[REDACTED]	

Source: Parties' estimates.

55. Table 1 shows that the Parties' combined shares of supply at the national level are modest at around [30-40]% and that the increment from the Merger is approximately [10-20]%. The Parties' combined share of supply is less than that of Autoflow, which remains the largest supplier by volume.

Closeness of competition

56. Unilateral effects are more likely where the merger eliminates a significant competitive force in the market or where the merging firms' products compete closely.

Parties' submissions

57. The Parties submitted that they are not each other's closest competitor in the independent supply of BM software to bodyshops. ARMS submitted that its closest competitor is Autoflow, as the two suppliers' products compete closely on both price and functionality. The Parties submitted that, like BMS's Eclipse

¹⁴ The CMA also looked at shares of supply by revenue but was unable to create reliable shares of supply on a revenue basis due to incomplete and unreliable information. See also footnote 4 above.

¹⁵ Table 1 does not include share of supply estimates for 'Plan Manager' by Audatex, as this product was only launched in the UK during 2018. See paragraph 78 below, for further information on Plan Manager.

¹⁶ [REDACTED] which operates 105 sites in the UK, [REDACTED]. In any event, [REDACTED] and the CMA notes that 83% of bodyshop operators who engaged with the CMA's investigation explained that switching between suppliers of BM software is a considerable undertaking that can be very disruptive to their day to day business. [REDACTED]

product, Autoflow's BM software is cloud-based and as such, both are principally aimed at multi-location bodyshops that undertake work for major insurance companies, though they are both also used by single-site bodyshops.

58. The Parties submitted that, in contrast, EMACS's BM software products are not cloud-based and are therefore targeted at single-site bodyshops such as manufacturer-approved or franchise dealership bodyshops. As such, the Parties submitted that EMACS's closest competitors tend to be smaller, more niche BM software suppliers such as Bodynet.
59. The Parties submitted that their products are also differentiated by the fact that EMACS's BM software is viewed as a premium product, with high quality and levels of customer service and a strong record of innovation. As such it [REDACTED]. The Parties submitted that ARMS sometimes [REDACTED], many of whom are smaller bodyshop operators. The Parties submitted that the fact EMACS has a dedicated consultancy team, which supports its customer base, distinguishes itself from other competitors in the market. The Parties said that EMACS's BM software is also [REDACTED] than ARMS's Eclipse product.
60. Despite the Parties identifying different BM software suppliers as their closest competitors, they submitted that they each nevertheless compete against all independent suppliers of BM software in the market.

Product differentiation

61. The evidence the CMA has reviewed indicates that, although all BM software contains the same basic functions, there is significant differentiation between the BM products available on the market. The Parties' BM products are differentiated with EMACS' software not being cloud-based but having mobile functionality; whereas Eclipse is designed for cloud operation but without mobile functionality. The CMA saw differentiation in other companies' BM products. For example, [REDACTED] is supplied to bodyshop customers alongside its core [REDACTED] products and other bodyshop consumables. A customer [REDACTED] told the CMA that it considers Eclipse to be [REDACTED] than Audatex's Plan Manager product, but that Plan Manager [REDACTED], making it difficult to draw a direct comparison between the two systems.

Internal documents

62. As part of its investigation, the CMA used its formal information-gathering powers to request internal documents from the Parties, including those which set out the competitive conditions, market conditions, market shares and/or competitors, in relation to BM software. The Parties informed the CMA that in

the ordinary course of their respective businesses, they each produce a limited number of documents which are responsive to these points. Within the documents produced by the Parties, the CMA saw no evidence to demonstrate that the Parties consider themselves to be each other's closest competitor. For example, an ARMS internal document¹⁷ states that: [REDACTED].

Parties' switching data

63. Customer switching data shows very limited evidence of customer switching between the Parties. In contrast, during 2017, ARMS [REDACTED].

Third party evidence

64. Third parties told the CMA that although the products of all BM software providers are broadly comparable, the Parties are not each other's closest competitor. Of those customers of the Parties who responded to the CMA, six named Autoflow's BM software as their top alternative and two listed Autoflow as their second preferred alternative. The other merging party's BM software did not feature as first or second choice alternative in any customer's response and was considered to be the third best alternative by just three customers.
65. [REDACTED], a multi-site customer of ARMS and Autoflow,¹⁸ told the CMA that: "*Many wouldn't view EMACS as a major competitor in the bodyshop group space to ARMS. They tend to target different parts of the market.*" Compared to EMACS, this customer said that Autoflow exhibits more similarities to Eclipse. This customer also noted that EMACS's BM software has won various industry awards, but nevertheless considered it not to be as good a product as Eclipse or Autoflow in terms of its functionality, so would not consider EMACS.
66. [REDACTED], a multi-site customer of EMACS, said that it had not considered moving to an alternative supplier, but that if it did so, its most likely alternative supplier would probably be Autoflow.
67. [REDACTED], a multi-site bodyshop operator currently using BMS's Eclipse software told the CMA that it was currently in the process of evaluating alternative suppliers with a view to switching and had already started this process when the Merger was announced. [REDACTED]

¹⁷ [REDACTED], page 7.

¹⁸ [REDACTED]

68. [X], a BMS customer operating from 10 bodyshops, told the CMA that it was aware of several alternative BM software suppliers, including EMACS, but emphasised Audatex's Plan Manager product as one this customer had recently looked into.
69. Competitor [X] considered that there is a sense in the wider market that ARMS would not be seen as one of the three main players. Rather, people would be more likely to list Autoflow, Advance and EMACS. This was in part due to an understanding that BMS's Eclipse product is based on older technology than some of its competitors' offerings.

Conclusion on closeness of competition

70. On the basis of the available evidence, the CMA believes that whilst the Parties are competitors in the independent supply of BM software to UK bodyshops, they are not close competitors. The evidence indicates there is little existing competition between the Parties. The evidence also indicates that other BM software suppliers exert a stronger competitive constraint on the Parties than they do on each other.

Competitive constraints¹⁹

71. Unilateral effects are more likely where customers have little choice of alternative suppliers or where these alternative suppliers cannot compete effectively.
72. The Parties' market share figures show that their combined share of supply would result in the merged entity being the second largest independent supplier of BM software in the market, after Autoflow and closely followed by PPG.²⁰
73. The CMA understands that Autoflow was acquired in December 2017 by Madison Enterprises Ltd, which is owned by the directors of Vizion Network Ltd (**Vizion**). Vizion operates a network of over 750 bodyshop locations across the UK. The Parties submitted that Vizion encourages its bodyshops to use Autoflow's BM software. Autoflow confirmed that this is the case, but clarified that its BM software is not mandated.

¹⁹ Based on the evidence considered in paragraphs 39 to 43 above, the CMA believes that the development of in-house proprietary BM software is likely to be a constraint only in relation to the largest customers, if at all.

²⁰ The Parties referred the CMA to industry publication *The Future of the UK Car Body Repair Market 2019 – 2024*, published by Trend Tracker Limited, which includes a summary of the market for BM software. This document describes Autoflow at page 59 as the "clear market leader".

74. Third party evidence indicates that Autoflow is well known among bodyshop operators and is generally well regarded. As referred to in paragraph 64 above, half of customers contacted by the CMA named Autoflow as their first or second choice alternative to their current BM software supplier. [REDACTED], a BMS customer [REDACTED], told the CMA that it considers Autoflow to offer a superior system to BMS's Eclipse product.
75. Autoflow told the CMA that it considers the major players in the independent supply of BM software have, for a long time, been Autoflow, Advance, EMACS and ARMS, as well as smaller companies such as Autosoft and Bodynet. Autoflow's Sales Director confirmed that Autoflow does not lose many customers to competitors and could not recall the last time it had lost a site to ARMS or EMACS.
76. 'Advance' by PPG is another well-known and commonly used BM software system in the UK. Its market share is larger than that of each of the Parties pre-Merger. Following the Merger, PPG will be the third largest independent supplier of BM software in the UK. [REDACTED]²¹
77. Autosoft is a smaller independent supplier of BM software in the UK market. Autosoft informed the CMA that it targets independent bodyshops, as well as some bodyshop groups and dealerships. Autosoft offers its customers the option of cloud-based or non-cloud-based BM software and explained to the CMA that it is continually enhancing its system and, in particular, is currently attempting to increase its reach to larger bodyshop groups and dealership groups by adding enhanced functionality and connectivity features to improve its appeal to multi-site customers. Autosoft considered that it competes either strongly, or very strongly with Autoflow, ARMS, EMACS, Advance, Bodynet and Audatex in the supply of BM software. Five customers who engaged with the CMA's investigation stated that they are aware of Autosoft's BM software product, though none named it as one of their top alternatives to their current supplier.
78. Audatex is part of the Solera group of companies. It supplies insurance claims estimating software to UK bodyshops, a product which is complementary to, but not a substitute for, BM software. Audatex's BM software, 'Plan Manager', was only launched in the UK in April 2018, so does not feature in the Parties' share of supply estimates at Table 1, above. However, Audatex told the CMA that [REDACTED] in the UK and Audatex [REDACTED]. Plan Manager is cloud-based and is aimed at both single-site and multi-site bodyshops. Audatex considers that Plan Manager competes equally closely with the BM software products of

²¹ [REDACTED]

Autoflow, Advance, EMACS and ARMS, whilst also competing to a lesser extent with those of Autosoft and Bodynet.

79. The CMA's investigation has shown that despite its recent entry into the market, there is a high level of awareness of Plan Manager amongst the Parties' customers and the main independent suppliers of BM software. Most customers who engaged with the CMA's investigation were aware of Audatex's BM software and two ranked it as their first choice preferred alternative to their current supplier. As described at paragraphs 55 and 64, above, large bodyshop groups such as [REDACTED] are considering adopting or recommending Plan Manager in their businesses. BM software supplier, [REDACTED] listed Audatex as one of its top four competitors and, [REDACTED] ranked it as a strong competitor, whilst an ARMS internal document described Audatex as BMS's "*biggest threat in the UK market*".²² One EMACS customer, [REDACTED] considered that, due to Audatex's expertise and presence in estimating software, "*it won't be long before this [Plan Manager] is leading the field.*"
80. Taking the above evidence into account, the CMA believes that the merged entity will continue to face competition from other independent suppliers of BM software post-Merger, including Autoflow, which will still be the largest supplier in the market. Given the limited pre-existing competition between the Parties, these constraints will be similar to the situation which existed prior to the Merger and, post-Merger, will continue to constrain the merged entity.

Conclusion on horizontal unilateral effects

81. For the reasons set out above, the CMA believes that the Parties do not compete closely and will continue to face sufficient competitive constraint from a number of credible competitors. Accordingly, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC as a result of horizontal unilateral effects in relation to the independent supply of BM software to bodyshops in the UK.

Conglomerate effects

82. Conglomerate effects may arise in mergers of firms that are active in the supply of goods or services that do not form part of the same markets but which are nevertheless related in some way, either because their products are complements (so that a fall in the price of one good increases the customer's

²² See paragraph 62 of this Decision.

demand for another) or because there are economies of scale in purchasing them (so that customers buy them together).²³

83. Most non-horizontal mergers are considered to be benign or even efficiency-enhancing (when they involve complementary products) and do not raise competition concerns. However, in certain circumstances, a conglomerate merger can result in the merged entity foreclosing rivals, including through a tying or bundling strategy.
84. In the present case, the CMA has considered whether the merged entity may be able to foreclose access to CAPS in order to promote its BM software.
85. The CMA's approach to assessing conglomerate theories of harm is to analyse (a) the ability of the merged entity to foreclose competitors, (b) the incentive of it to do so, and (c) the overall effect of the strategy on competition.²⁴

Ability

86. The CMA has assessed whether, as a result of the Merger, the merged entity could foreclose access to CAPS by customers of competing BM software suppliers, in order to cause those customers to switch to the merged entity's BM software. If CAPS were no longer available as a secure data conduit between competitors' BM software systems and middleware / third party platforms, or was available on less favourable terms to bodyshops using competitors' BM software systems, this could induce bodyshops to prefer the merged entity's BM software.
87. One third party ([REDACTED]) raised a concern of the possibility of the merged entity reducing the number of systems that CAPS could connect to. However, this customer, noted that it had been using CAPS since before it was acquired by ARMS in 2015 and said that it had never had any reason to suspect ARMS might engage in this type of behaviour. This customer noted that, if this did happen, suppliers would have to find an alternative to CAPS.
88. Both CAPS and BM software are supplied to the same group of customers (bodyshops). These products have been supplied separately, but the provision of access to CAPS to these users could be tied or bundled with the sale of BM software. The Parties explained that CAPS is used by 60% of the bodyshop industry. The Parties submitted that there are alternatives to CAPS

²³ [Merger Assessment Guidelines](#), paragraph 5.6.2.

²⁴ [Merger Assessment Guidelines](#), paragraph 5.6.6.

which include Audaconnect, by Audatex²⁵ and direct connections between BM software systems and middleware platforms, such as that between Autoflow's BM software and its Repex middleware platform. Of the [REDACTED] customers of ARMS's BM software, [REDACTED] use CAPS. Whilst CAPS is complementary to BM software, amongst this group of existing ARMS customers, some use other means of data transfer.

89. The CMA understands that following the acquisition of CAPS by ARMS in 2015, Autoflow also began to compete with CAPS, by developing direct integrations between its Repex middleware platform and various BM software systems available in the market, including its own BM software. In this regard, ARMS explained that prior to the Merger, EMACS had agreed to a direct connection between its BM software and Autoflow's Repex platform. The CMA also understands that PPG's middleware platform, Activeweb, is also capable of being linked directly to at least PPG's own BM software, therefore bypassing the need for a user of its BM software to also use CAPS.
90. Competing BM software suppliers are therefore able to design their software to work with several secure data conduits, ie by integrating their BM software with CAPS, Audaconnect, or by the creation of a direct link to middleware platforms such as Repex and Activeweb. As such, despite the fact that 60% of bodyshops currently use CAPS, the ability of bodyshops to utilise one or more alternative connections and the presence of direct connections offered by well-established software providers constrains the merged entity's ability to foreclose access to CAPS in order to promote its own BM software.
91. For the reasons set out above, the CMA has concluded that the Merger will not provide the merged entity with the ability to foreclose its competitors in the independent supply of BM software to bodyshops. This being the case, the CMA has not had to assess the impact of the Merger on the merged entity's incentive to foreclose, or the effect of any such foreclosure strategy on competition.²⁶

²⁵ ARMS explained to the CMA that Audaconnect provides an alternative to CAPS. Audaconnect is described as an encrypted API-based platform which enables "*fast, secure and GDPR compliant integration between systems*" (<http://www.audaconnect.co.uk/>). The list of BM software suppliers integrated with Audaconnect includes Advance, AutoFlow, Autosoft, Eclipse and EMACS

²⁶ Notwithstanding this conclusion, the CMA also notes that ARMS does not currently tie or bundle access to CAPS with its existing BM software, and there is no evidence to suggest that the merged entity would have more incentive to tie or bundle CAPS with its BM software post-Merger.

Conclusion on conglomerate effects

92. For the reasons set out above, the CMA has found that the Merger does not give rise to a realistic prospect of an SLC as a result of conglomerate effects in relation to the independent supply of BM software to bodyshops in the UK.

Barriers to entry and expansion

93. 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.²⁷
94. 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.

Third party views

95. The CMA contacted a range of customers and competitors of the Parties.
96. The majority of customers who engaged with the CMA's investigation were unconcerned by the Merger. Some considered it to be a positive development for the capability of the BM software product(s) offered by the Parties.
97. Two customers ([REDACTED] and [REDACTED]) mentioned concerns about data security and queried the interest of a car-hire company²⁸ in acquiring a supplier of BM software.
98. ARMS explained that no user of CAPS, including Enterprise, can interrogate the CAPS platform to access detailed repair information which may be stored on any supplier's BM software. The CMA notes that ARMS has owned a supplier of BM software since 2015, when it acquired BMS. The Merger will not, therefore, lead to any material change in the nature or quality of data that might theoretically be available to Enterprise through the merged entity's BM software business.²⁹ ARMS's internal documents reviewed by the CMA did not evidence any discussion of Enterprise gaining the ability to access BM customers' data and/or to use such data to its advantage as a result of the

²⁷ [Merger Assessment Guidelines](#), from paragraph 5.8.1.

²⁸ As described at paragraph 7 of this decision, ARMS is a subsidiary of Enterprise Rent-A-Car UK Limited and is part of the wider Enterprise group.

²⁹ The only discernible change resulting directly from the Merger would be in the number of customers whose data is processed through the use of the merged entity's BM software.

Merger. On this basis, the CMA does not consider that the Merger gives rise to any competition concerns surrounding access to data by the merged entity, or its corporate group.

99. Two competing suppliers of BM software ([REDACTED]) and ([REDACTED]) raised non-merger specific concerns. Two other competing suppliers of BM software ([REDACTED]) and ([REDACTED]) raised data concerns similar to those considered above (in paragraphs 97 - 98).
100. Third party comments have also been taken into account where appropriate in the competitive assessment above.

Decision

101. 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.
102. The Merger will therefore **not be referred** under section 22(1) of the Act.

James Waugh
Director, Mergers
Competition and Markets Authority
26 April 2019