

Summary

1. The Competition and Markets Authority (CMA) has provisionally found that the completed merger between Ecolab Inc. (Ecolab) and The Holchem Group Limited (Holchem) (the Merger) has resulted, or may be expected to result, in a substantial lessening of competition (SLC) in the supply of formulated cleaning chemicals (and ancillary services) to industrial food and beverage (F&B) customers in the United Kingdom (UK).
2. This is not our final decision. We now invite submissions from any interested parties on these provisional findings by **Tuesday 27 August 2019**.
3. Alongside these provisional findings, we have published a notice of possible remedies, which sets out the CMA's initial views on the measures that might be required to remedy the SLC that we have provisionally found. We also invite submissions from any interested parties on these initial views by **Tuesday 13 August 2019**.
4. We will take all submissions received by the above dates into account in reaching our final decision, which will be issued by 8 October 2019.

The questions we must decide

5. We are required to decide three core questions in our inquiry.
6. First, whether a relevant merger situation has been created within the meaning of section 23 of the Enterprise Act 2002 (the Act). We have provisionally found that a relevant merger situation has been created.
7. The second question we must decide on is whether the creation of that relevant merger situation has resulted, or may be expected to result, in an SLC within any market or markets in the UK for goods or services. In this case, we have provisionally found an SLC has arisen, or may be expected to arise as a result of the Merger in the supply of formulated cleaning chemicals (and ancillary services) to F&B customers in the UK.
8. The final question we must decide on is what action we might take for the purposes of remedying any SLC we have identified. This is the subject of the notice of possible remedies we have published alongside these provisional findings, in which we discuss whether to, in effect, prohibit the Merger by

requiring divestment of the entirety of Holchem, or whether any other measures could effectively remedy the SLC we have provisionally found.

The merger parties

9. Ecolab is a global supplier in water, hygiene and energy technologies, providing cleaning, water treatment and sanitising products and services to customers operating in food service, food processing, hospitality, healthcare, industrial, and oil and gas industries. It supplies, among other products, cleaning chemicals and ancillary services to industrial and institutional customers in the UK, including to F&B manufacturers. It is incorporated in the United States (US) and listed on the New York Stock Exchange. Its global turnover in 2018 was approximately £11.3 billion (US\$14.7 billion).
10. Holchem is a UK based supplier of cleaning chemicals and ancillary services primarily to industrial customers active in the F&B industry, as well as distributors in the institutional segments in the UK and Ireland. Holchem is incorporated in the UK and before the Merger was owned by several individuals and family trusts.
11. We refer to Ecolab and Holchem collectively as the Parties.

Transaction

12. On 30 November 2018 Ecolab acquired the entire share capital of Holchem.

Our investigation

13. The Parties overlap in the supply of formulated cleaning chemicals (and ancillary services) to F&B customers and in the supply of formulated cleaning chemicals to institutional customers, both in the UK. We have not found it necessary to examine the supply of formulated cleaning chemicals to institutional customers in the UK and we note that the CMA's Phase 1 investigation did not find that this area could give rise to a realistic prospect of an SLC. We consider that this is a proportionate way in which to conduct our inquiry. The remainder of this summary is in relation to the supply of cleaning chemicals and ancillary services to F&B customers.
14. The Parties provide important products and services which are crucial to ensuring that places where food and beverages are manufactured, processed and packaged remain clean and hygienic and the food or beverage free from contamination.

15. We have assessed the Merger against a counterfactual of pre-Merger conditions of competition.
16. We have considered the Merger's effects with reference to the market for the supply of formulated cleaning chemicals (and ancillary services) to F&B customers in the UK.
17. We have assessed whether removing one party as a direct independent competitor might allow the merged entity to increase prices, lower the quality of its products or customer service (for example, technical support services), reduce the range of its products/services, and/or reduce innovation. This is a horizontal, unilateral effects theory of harm.
18. In our inquiry we have analysed data from the Parties about their gains and losses of customers over the past few years and about their bidding activity in formal tender processes. We sent questionnaires to competitors and to customers of the Parties, through which we have received detailed insight into the market and the competitive dynamic. In addition to conducting hearings with the Parties, we held calls with main competitors and large customers of the Parties. We also reviewed internal documents of the Parties.

Our provisional findings

19. We have heard during our inquiry that reliability, backed-up by high quality technical support services, is important to customers. This is because of the potentially very high cost to customers of having their production disrupted by something going wrong in the cleaning process or because of the risk to public health and to the F&B manufacturer's reputation of a food hygiene incident. Some third parties have told us that these considerations are utmost in customers' minds when thinking about switching cleaning chemical suppliers, especially for larger customers. We have found that many customers do not switch frequently, they face material switching costs (eg in trialling a potential supplier) and many tend to view their supply options as being limited to a few large, established suppliers.
20. We have also found that customers vary in their requirements and preferences between suppliers, while suppliers vary in their areas of strength or expertise. Customers are therefore unlikely to view each of the major suppliers as being completely interchangeable for their particular requirements.
21. Our inquiry has found that the Merger substantially increases concentration in an already concentrated market. The Merger combines the largest supplier,

Holchem, with another large supplier, Ecolab, creating a merged entity with a market share of 40-50% in the supply of formulated cleaning products (and ancillary services) to F&B customers in the UK. The merged entity will be around twice as large as the next largest competitor. The only other suppliers of scale are Diversey Limited (Diversey) and Christeyns Food Hygiene (Christeyns). Given the differentiated nature of suppliers in this market, we consider that market shares give only a partial indication of the Parties' competitive strength. We have therefore examined the evidence on how closely the Parties compete. A merger between parties who compete closely could have a significant effect on rivalry and therefore on the extent to which the competitive process encourages firms to improve their offers to customers or to become more efficient and innovative.

22. We found that the Parties compete for the same types of customers, including across each of the food, dairy and beverage segments. Notwithstanding this, they do have different customer focuses to some extent. For example, Ecolab receives a significant proportion of its revenue from international contracts whereas Holchem does not have any such contracts. Customers who have international contracts told us that they would not consider a supplier who supplies on a UK-only basis.
23. We have looked closely at the Parties' gains and losses of customers as well as how they have competed in formal tenders. Both analyses indicate that the Parties are close competitors who generally face competition from some combination of each other and the two other large competitors (ie Diversey and Christeyns). Therefore, competition concerns could arise as a result of the Merger.
24. The gains and losses data show that Holchem provides a substantial competitive constraint on Ecolab. Indeed, based on this evidence it is Ecolab's closest competitor for lost and threatened accounts as well as in account opportunities. Ecolab's other main competitors are Diversey and Christeyns. From Holchem's perspective, Ecolab was a close competitor in a material number of cases with Diversey and Christeyns appearing to be even closer competitors.
25. A sizeable share of each of the Parties' revenue comes from customers won in formal tenders, which are typically used by larger customers. The data indicates that Holchem is by far Ecolab's closest competitor. No other rival competed against Ecolab for a greater amount of tender value or won more tender value in those instances in which Ecolab itself did not win. From Holchem's perspective, the tender data shows that Ecolab has been a

significant competitor against it, together with Diversey and Christeyns. Both Parties usually competed with one or two of the other Party, Diversey or Christeyns and only occasionally competed against all three. We consider that this indicates that although there are four main competitors in this market, most competition for tendered contracts takes place between two or three large providers. We have found that other suppliers compete against the Parties in very few instances.

26. We have also found that in formal tenders both Parties have provided strong competition against Diversey and Christeyns. Therefore, we think that the Merger would dampen the competition faced by these suppliers in addition to dampening the competition faced by the Parties themselves.
27. The gains and losses data and the tender data that we have analysed all suggest that the Parties are close competitors and face few other effective competitor
28. The qualitative evidence that we have collected provides corroboration of the quantitative data. Responses to our questionnaires to customers suggested that the Parties are close competitors. Holchem's large customers only identified Ecolab, Diversey or Christeyns as their first or second choice alternative to Holchem. Smaller Ecolab customers named Holchem as their best alternative whilst smaller Holchem customers thought Diversey or Ecolab would be their best alternative.
29. The Parties' internal documents indicate that Holchem is a strong constraint on Ecolab.
30. There are smaller suppliers. However, we have not found evidence that smaller suppliers, whether individually or collectively, will provide anything other than a weak constraint on the merged entity.
31. We do not think that expansion by smaller competitors will be timely, likely and sufficient to prevent or mitigate an SLC from arising in this case. In general, we consider that there are barriers to entry and expansion which will hamper new or existing rivals looking to expand to the size where they could constrain the merged entity in the UK.
32. We looked in detail at the possible expansion of Kersia Group (Kersia), a global supplier of cleaning chemicals which has recently started expanding into the F&B segment the UK. The evidence available to us, including Kersia's plans and internal targets, indicates that Kersia's expansion will not be timely, likely and sufficient to constrain the merged entity after the Merger.

33. Finally, we have considered the evidence on whether unformulated cleaning products, which are basic cleaning chemicals unmixed with other chemicals that provide additional qualities, offer some level of constraint on the Parties, who provide formulated cleaning chemicals. We have found that only a small proportion of customers would be able to switch to unformulated products and that they would typically only use these products for some of their requirements. We have seen very little evidence of actual switching from formulated cleaning chemicals to unformulated products. Moreover, given how highly customers value the ancillary services from the Parties (which are not offered with unformulated products) we consider that customer switching to unformulated products would not offer a sufficiently strong constraint on the merged entity to prevent an SLC from arising.
34. In all, we have been struck by the consistency of evidence in this case thus far, which points to a competition concern.

Provisional conclusions

35. We have provisionally concluded that the completed acquisition by Ecolab of Holchem:
- (a) has resulted in the creation of a relevant merger situation; and
 - (b) has resulted, or may be expected to result, in an SLC in relation to the supply of formulated cleaning chemicals (and ancillary services) to F&B customers in the UK.
36. We provisionally think that the adverse effect arising from the identified SLC could be an increase in prices, a lowering of the quality of the Parties' products or customer service (for example, technical support services), a reduction in the range of their products/services, and/or a reduction in innovation.