Aggregate Industries/ Breedon Inquiry

By DJS Research Ltd

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Your contacts

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Structure

1 Background and Method

Background To The Inquiry

- The completed acquisition of certain assets of Aggregate Industries (AI) by Breedon Aggregates Ltd. was referred to the Competition Commission in September 2013
- The focus of the study is on three products which are available at different AI/Breedon sites in Scotland – aggregates, ready mix concrete and asphalt
- These sites were concentrated in three regions: Highlands, Grampian, Tayside & Fife
- Research was commissioned to understand:
  - How products are used by customers – e.g. location across Scotland
  - The decision making process for each product and what is important when selecting a supplier
  - Reasons why customers purchase each product from the particular AI/Breedon site and what alternative suppliers are used in the local area
  - Substitutability and availability of a close substitute in the local area
  - What alternative products are available to customers in the local area
  - Whether customers would actually switch to these alternatives if the price or service offered were to deteriorate
  - Diversion ratios

Research Objectives

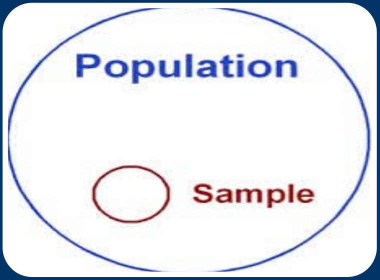
- Profile customers of both Breedon Aggregates and Aggregates Industries UK customers to determine why they buy each product
- To understand what is most and least important when selecting a product supplier and the supply/delivery process of these products (i.e. the decision making process)
- To understand the importance of geographical location on purchasing
- To understand demand side substitutability/closeness of substitution in the local area
- Analyse the impact of price changes/diversion on the buying process

Method

Our approach

Coverage

- Customers only included direct sales, not contracted
- Small scale purchase customers (bottom 10% Breedon, 5% AI) were removed from sample
- All customers purchased from the focal site during 2012



Sampling

- Sample was taken from the customer lists
- The CC undertook intensive work on the customer lists prior to commencement of fieldwork
- For some customers (who had more than one product/site combination) a priority product/site combination was identified in order to make it easier to identify the purchaser of ‘x’ product from ‘y’ site

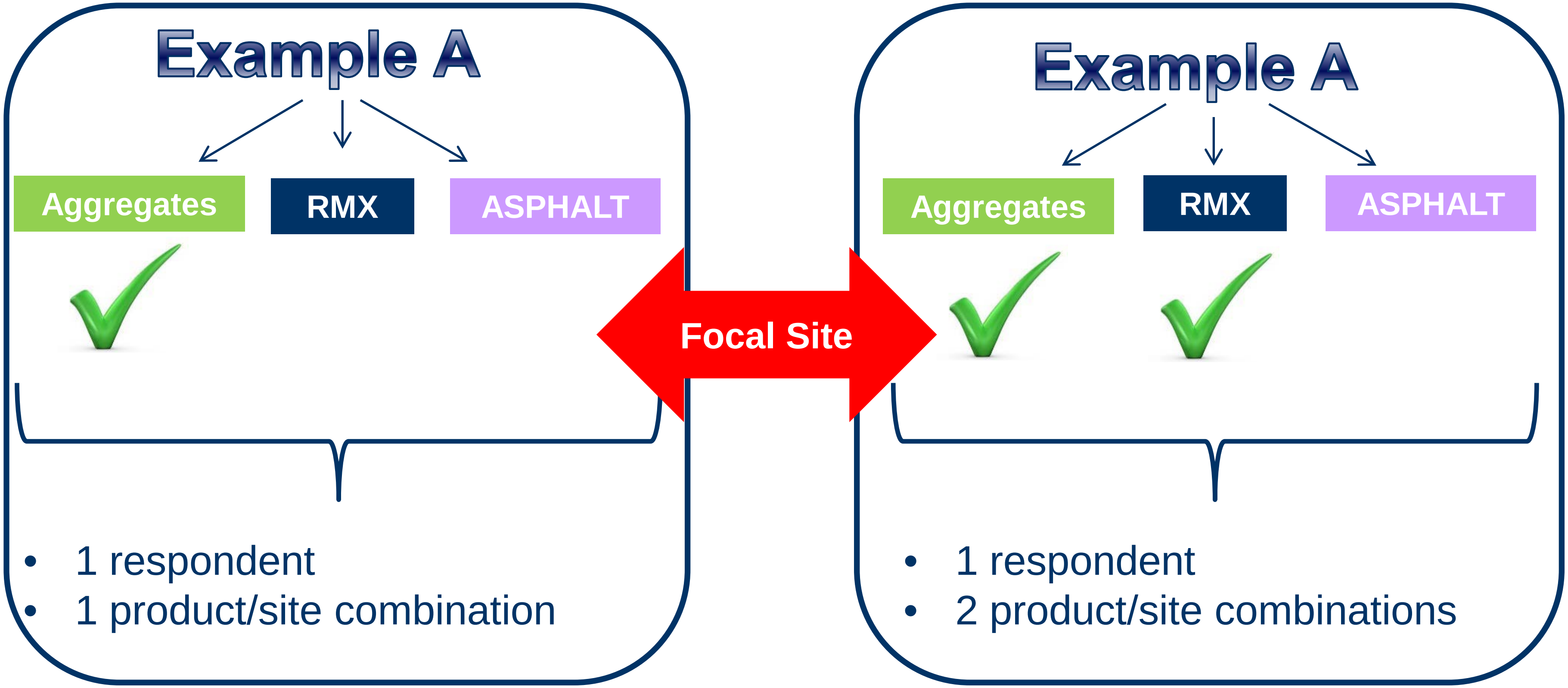
Fieldwork

- Interviews carried out by telephone
- This method was seen as the most appropriate to identify the employee within each customer who had purchasing responsibility for the product
- DJS selected a small team of 4 interviewers who were particularly experienced in B2B interviewing

Method

Explaining the product/site combination

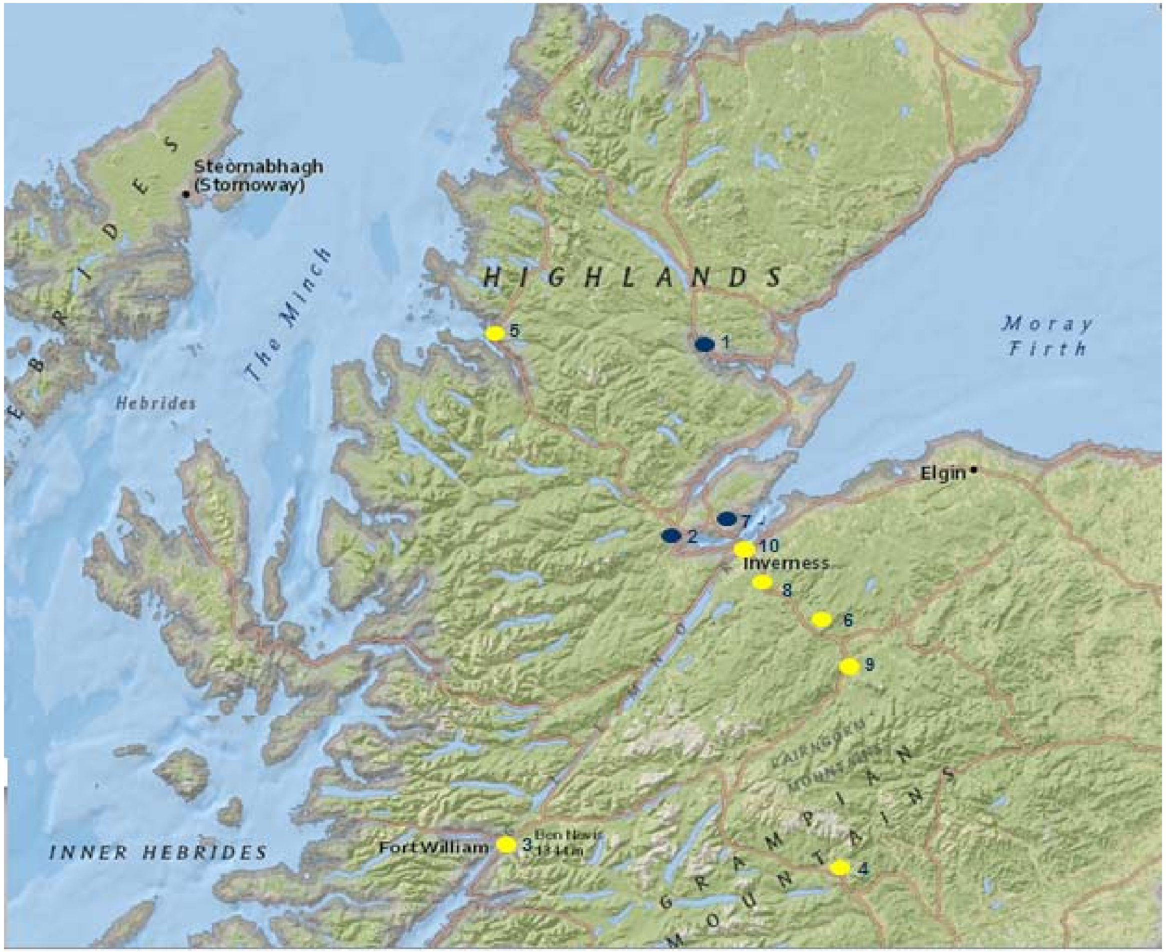
- Each respondent was asked about each product type they were responsible for purchasing
- Data is therefore shown throughout by product type



Highlands

Breedon Sites / AI Sites

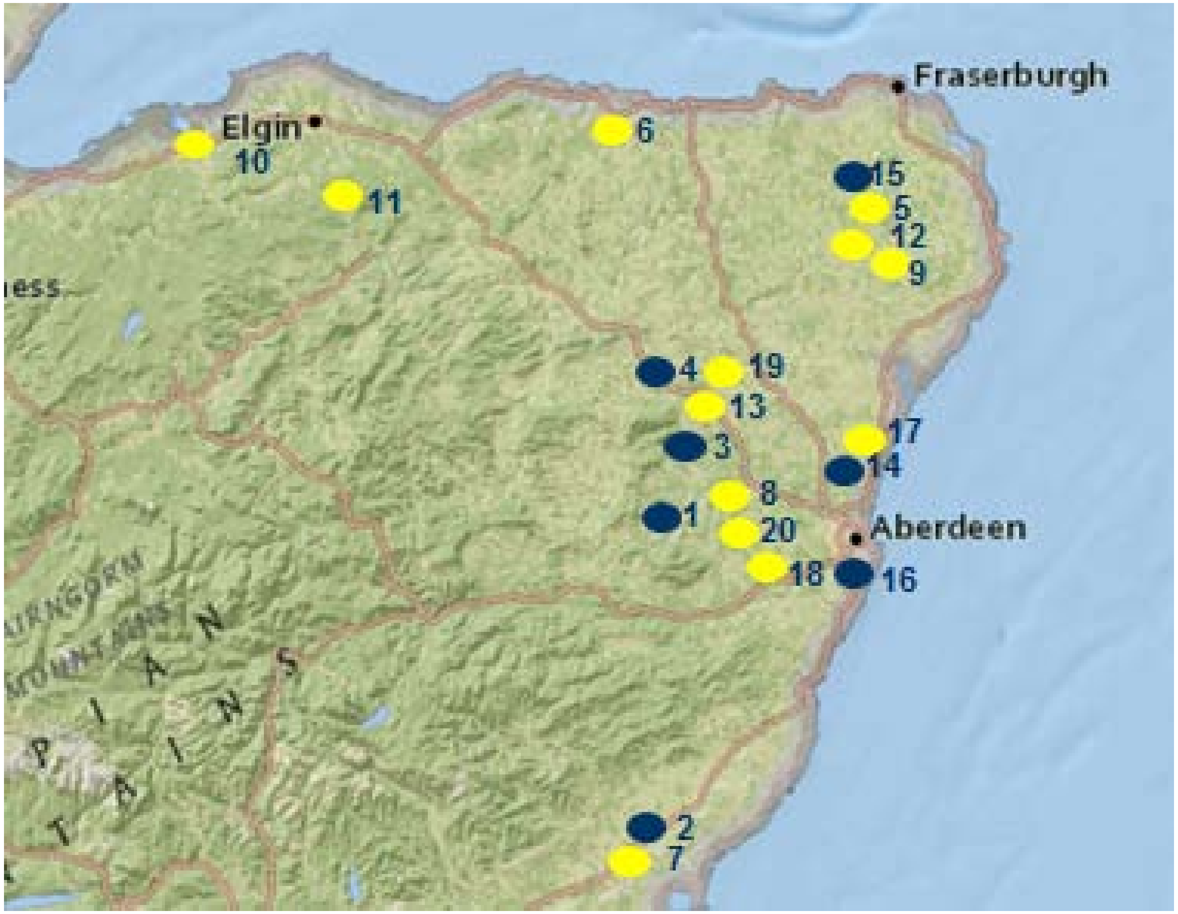
1. Ardchronie Quarry
2. Beauly Quarry
3. Banavie Quarry
4. Meadowside
5. Morefields Quarry
6. Tullochgribban - Non Operational
7. Mid Lairgs asphalt plant
8. Daviot asphalt plant
9. Aviemore concrete plant - MOTHBALLED in 2013
10. Inverness Concrete plant



Grampian

Breedon Sites / AI Sites

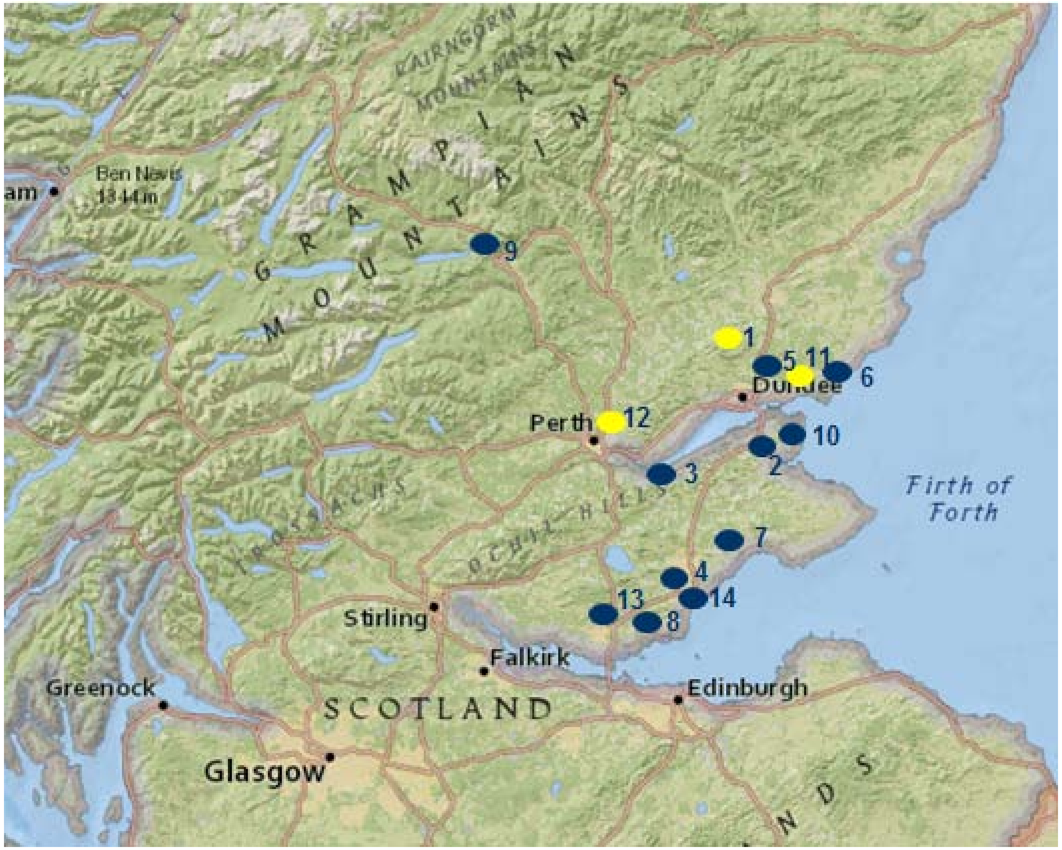
1. Corennie Quarry
2. Edzell
3. Kemnay Quarry - Non Operational
4. Tom's Forest
5. Boghead Quarry - Non Operational
6. Boyne Bay Quarry
7. Capo Quarry
8. Craigenlow Quarry
9. Longhaven (Stirlinghill replacement) - Non Operational
10. Netherglen Quarry
11. Rothes Glen Quarry
12. Stirlinghill Quarry
13. Woodlands (Sunnybrae) - Quarry SOLD Dec 2008
14. Dyce concrete plant
15. Peterhead concrete plant
16. Tullos concrete plant
17. Bridge of Don Concrete plant
18. Deeside concrete plant - MOTHBALLED in 2010
19. Inverurie Concrete Plant
20. Westhill Concrete Plant



Tayside & Fife

● Breedon Sites / ● AI Sites

1. Powmyre Quarry
2. Balmullo Quarry
3. Clatchard Craig
4. Craigs Quarry - Non Operational
5. Cunmont Quarry
6. Ethiebeaton Quarry
7. Langside Quarry SOLD Jan 2009
8. Orrock Quarry
9. Shierglas Quarry
10. St Michaels Quarry - Non Operational
11. Dundee concrete plant
12. Perth plant (mothballed in 2012 re-opened 2013)
13. Dunfermline concrete plant - Occasional Use
14. Kirkcaldy Concrete plant



Response Rates

Total Sample Loaded		478
	Refusals	131
	Unusable	9
	Non qualifier	15
	Non response/ unreachable	92
	Complete interviews	231
Conversion rate		48%

There were 300 product/site combinations in total

	Aggregate	RMX	Asphalt
Breedon	97	70	29
AI	49	41	14
TOTAL	**146**	**111**	**43**

2

Profile of Respondents

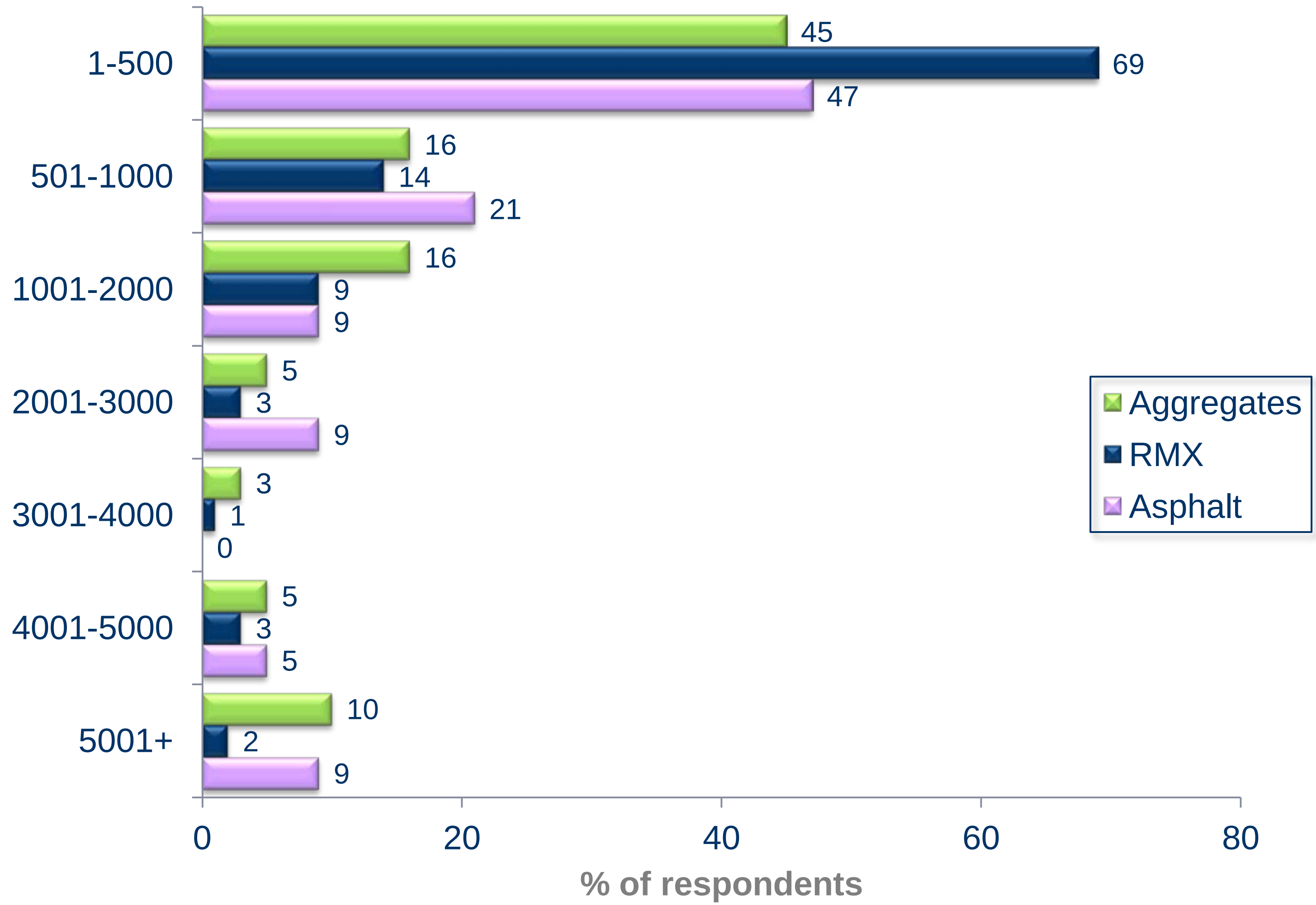
Profile Of Respondents

Spread of AI/Breedon focal sites covered

	Aggregate	RMX	Asphalt
Breedon	• Balmullo = 6 • Boyne Bay = 1 • Capo = 15 • Clatchard Craig = 8 • Craigenlow = 13 • Ethiebeaton = 7 • Morefields = 2 • Netherglen = 2 • Orrock = 13 • Rothes Glen = 18 • Shierglas = 6 • Stirlinghill = 6	• Aviemore = 4 • Boyne Bay = 1 • Bridge of Don = 1 • Capo = 4 • Clatchard = 3 • Craigenlow = 1 • Dunfermline = 1 • Ethiebeaton = 5 • Inverness = 14 • Inverute = 10 • Kirkcaldy = 1 • Netherglen = 5 • Orrock = 5 • Rothes Glen = 1 • Shierglas = 3 • Westhill = 11	• Clatchard = 2 • Craigenow = 6 • Daviot = 3 • Ethiebeaton = 4 • Netherglen = 4 • Orrock = 7 • Shierglas = 2 • Stirlinghill = 1
AI	• Beauly = 11 • Edzell = 2 • Powmyre = 5 • Tom’s Forest = 31	• Beauly = 1 • Dundee = 8 • Dyce = 2 • Edzell = 3 • Perth = 5 • Peterhead = 4 • Tom’s Forest = 8 • Tulios = 10	• Mid Lairgs = 6 • Tom’s Forest = 8

Profile Of Respondents

Majority of purchases are less than 500 tonnes (m^3 for RMX)

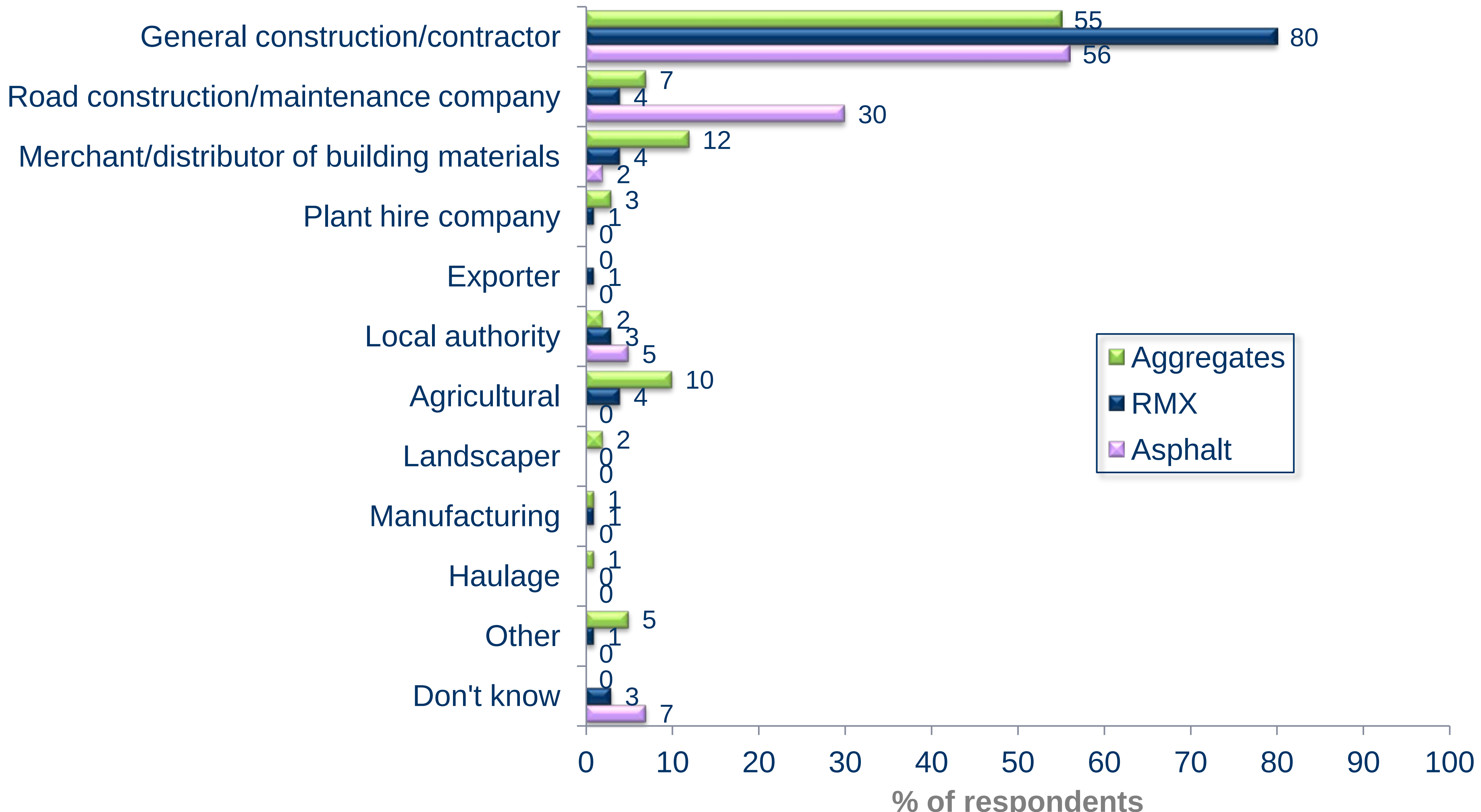


Base: AGG – 146, RMX – 111, ASP - 43

Profile Of Respondents

A mix of company types

Q2: Which of the following best describes your company and its requirement for (aggregates, RMX, asphalt)?

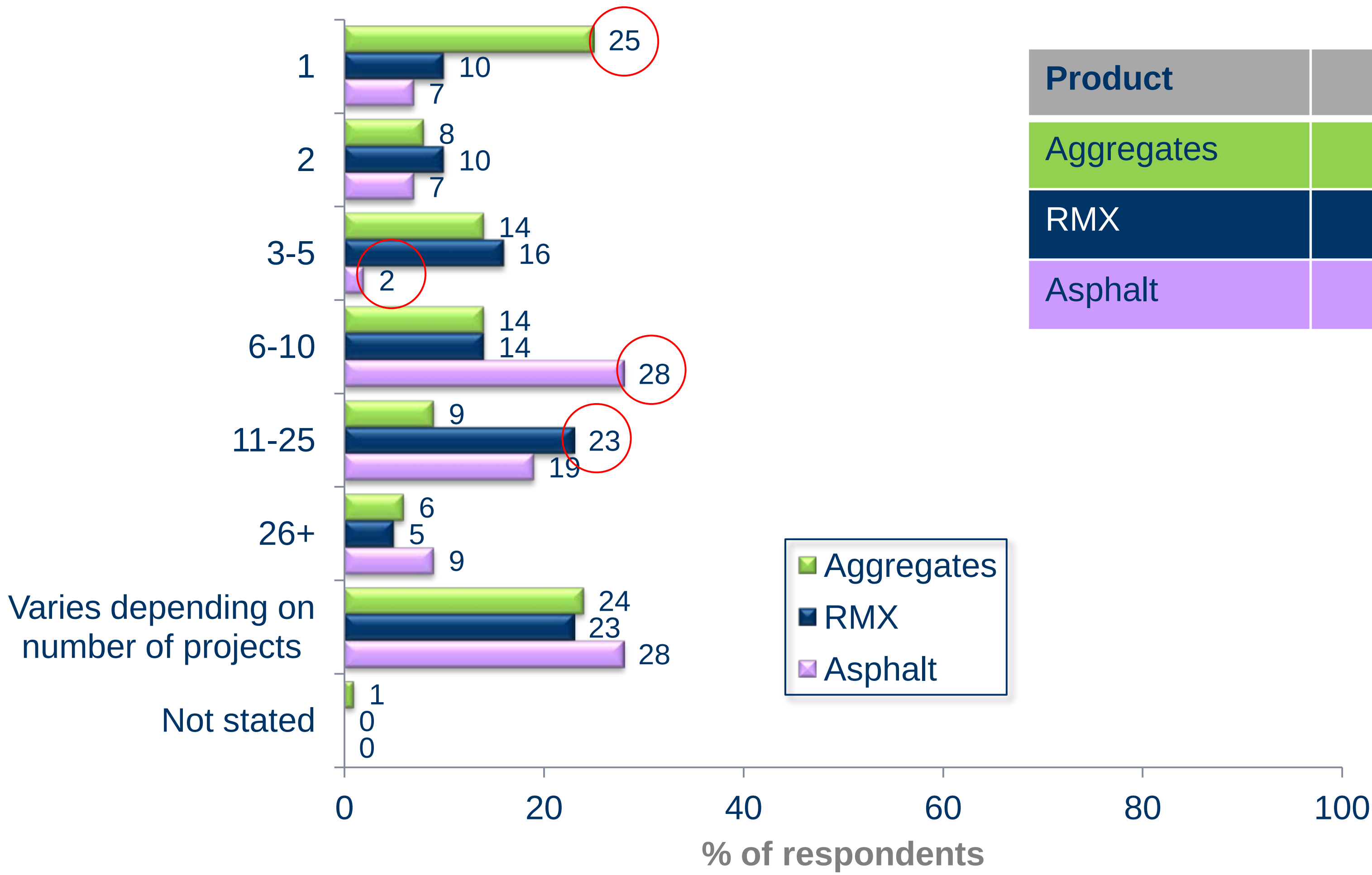


Base: AGG – 146, RMX – 111, ASP - 43

Profile Of Respondents

A range of number of site locations

Q3: How many job sites or delivery locations does your company have in Scotland?



Product	Mean
Aggregates	10
RMX	13
Asphalt	19

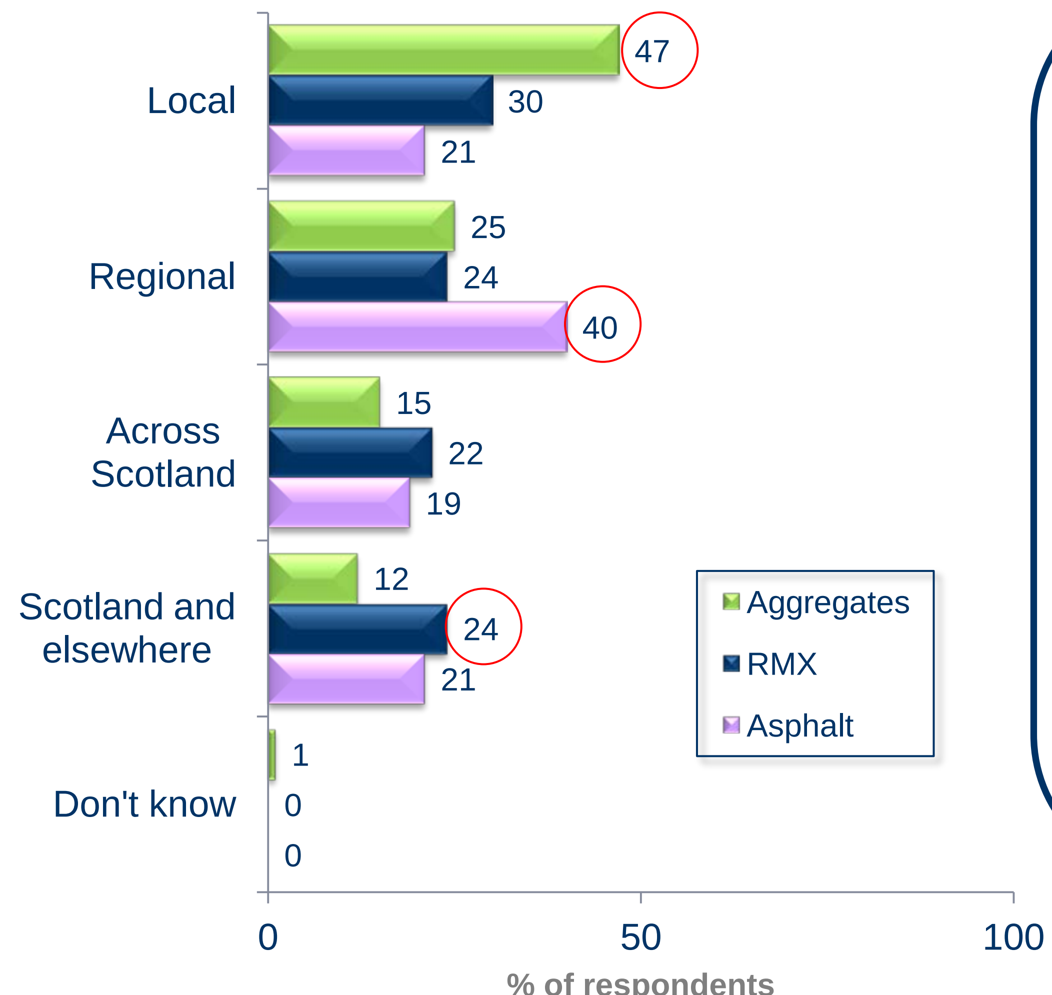
Base: AGG – 146, RMX – 111, ASP - 43

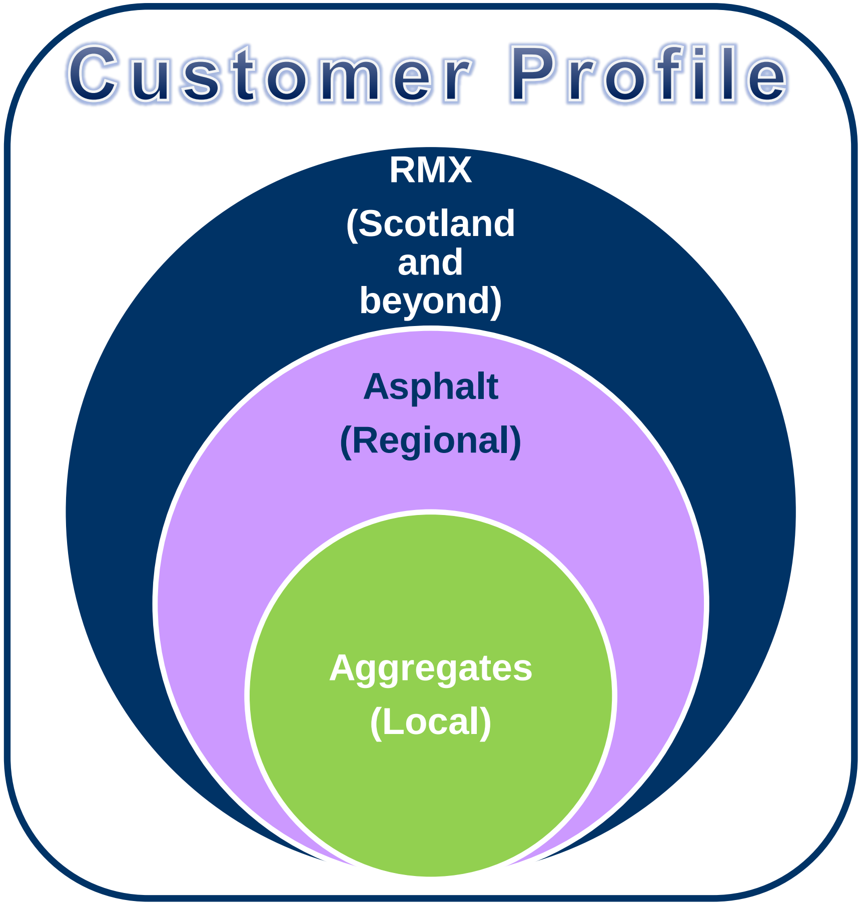
Denotes significant difference

Profile Of Respondents

A mix of local business activities and beyond; aggregate purchasers more likely to be local businesses

Q4: Are your company's business activities local, regional, Scottish or more widely based?





Base: AGG – 146, RMX – 111, ASP - 43

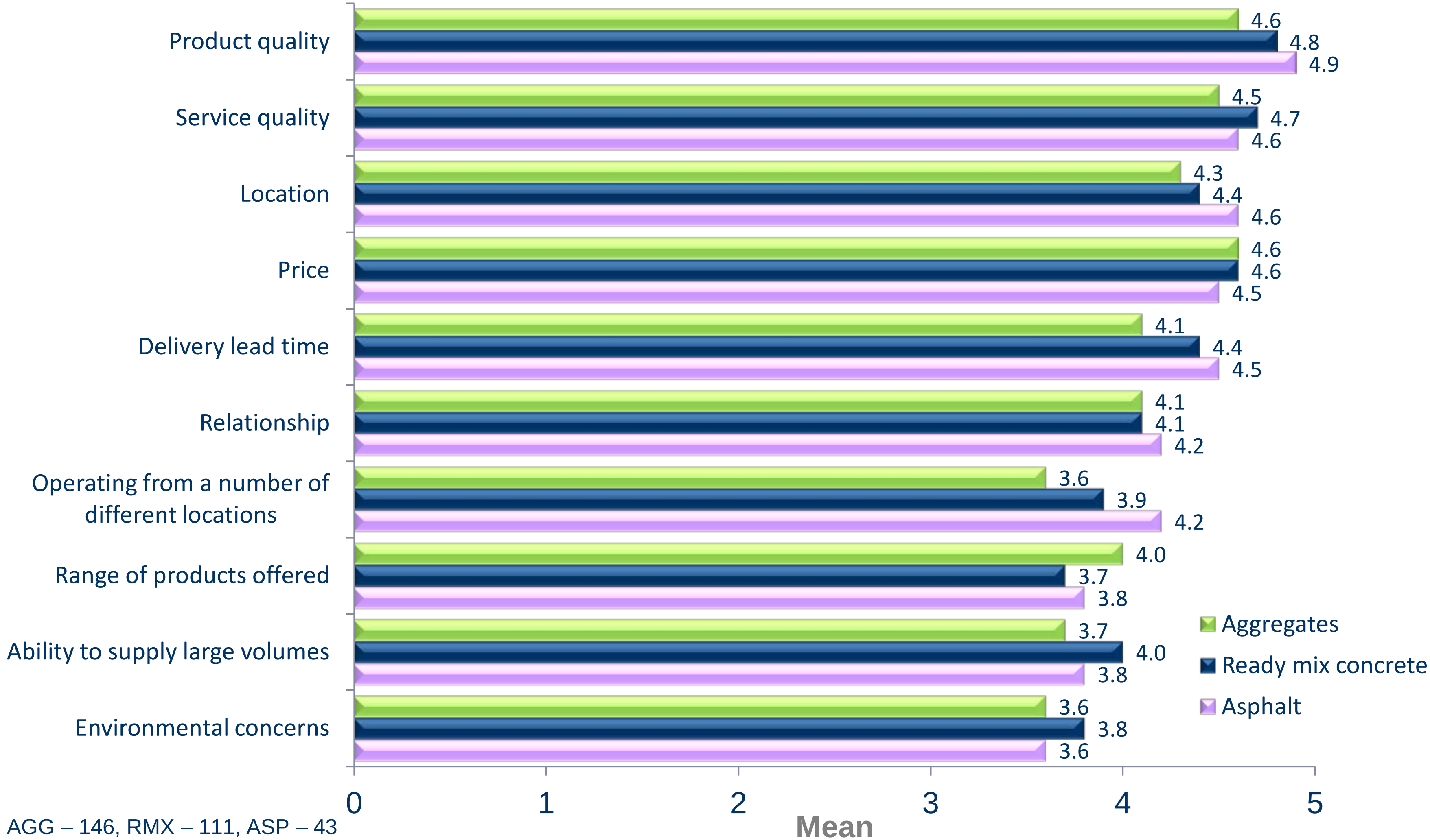
Denotes significant difference

3 Decision Making

Selecting A Supplier

Product quality, service, location, price and lead time were key considerations across all three product types

Q5a How important are each of the following when choosing a supplier of asphalt/aggregates/ready mix concrete?

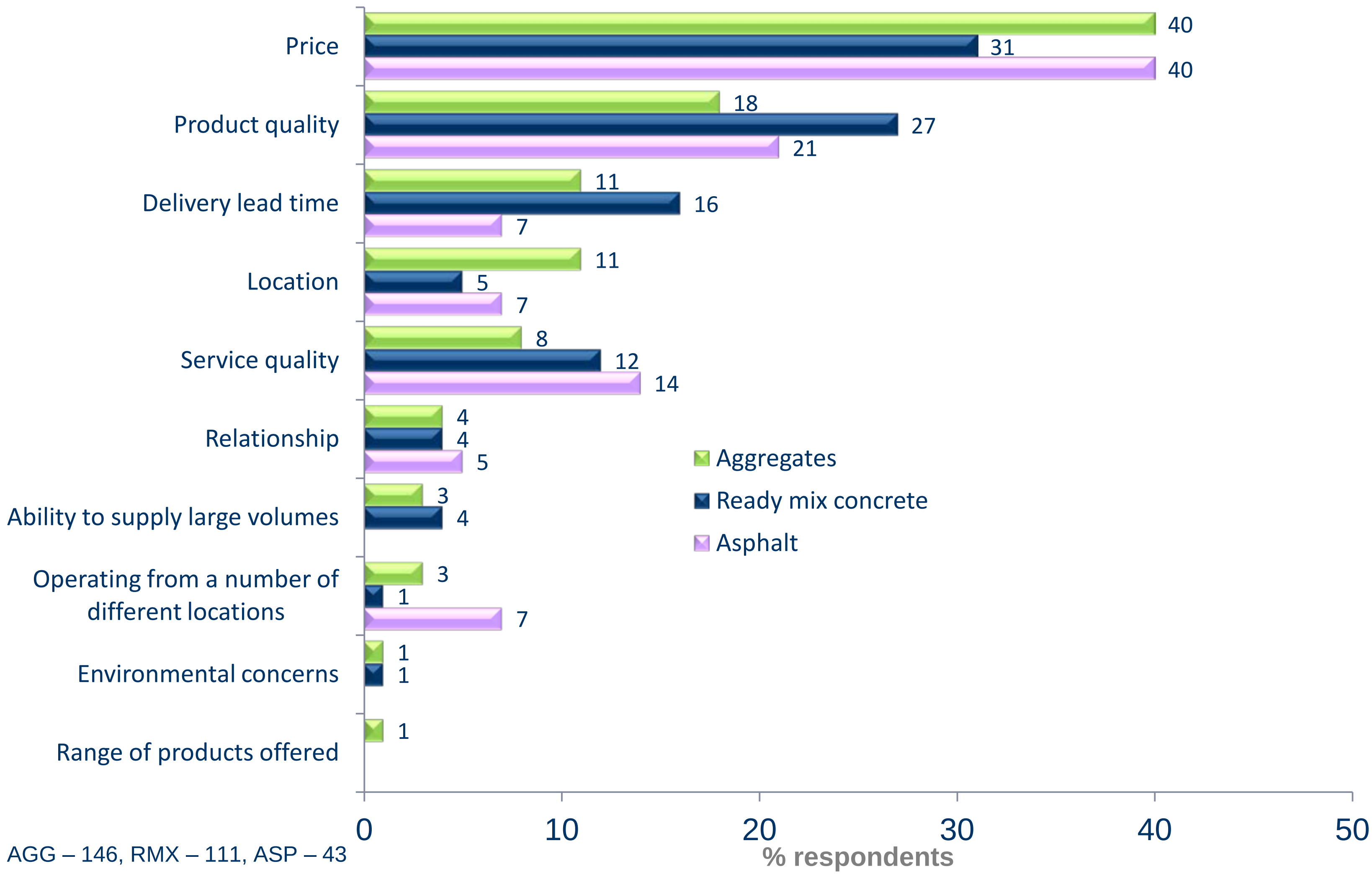


Base: AGG – 146, RMX – 111, ASP – 43

Selecting A Supplier

Price is a clear driver for choosing a supplier

Q5b Which of these is the most important?



Base: AGG – 146, RMX – 111, ASP – 43

Selecting A Supplier

Most collect quotes and negotiate on prices frequently

Q12 When you purchase aggregates how often does each of the following apply?

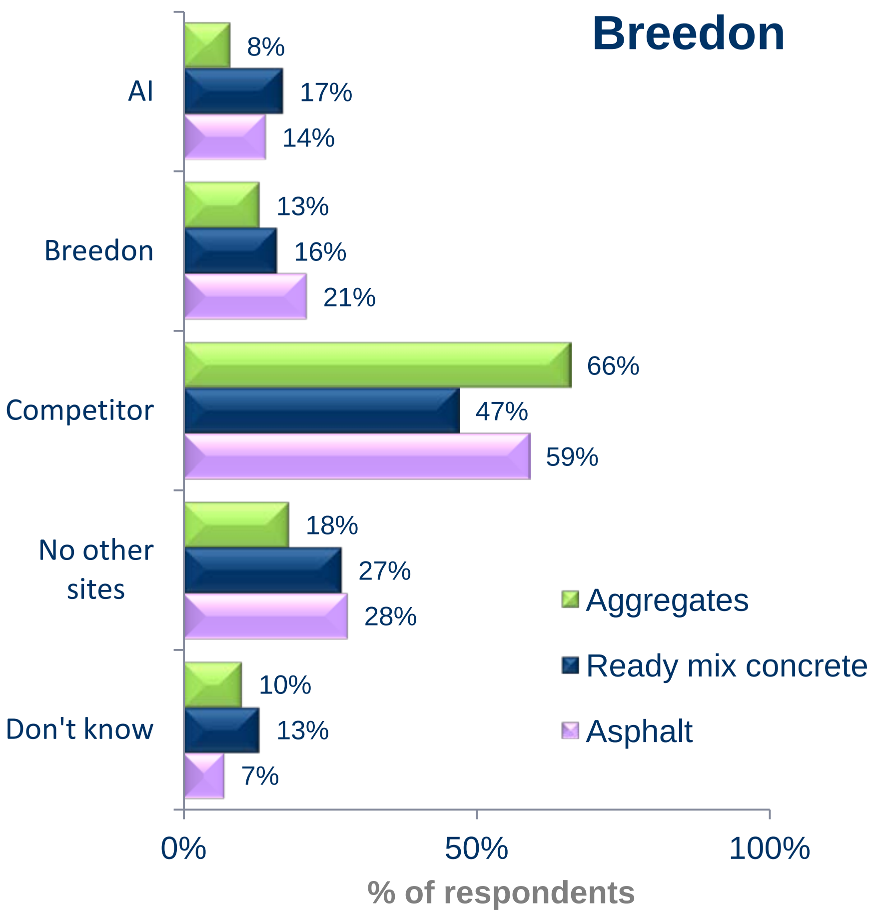
Base: AGG – 146, RMX – 111, ASP – 43

4 Supplier Usage

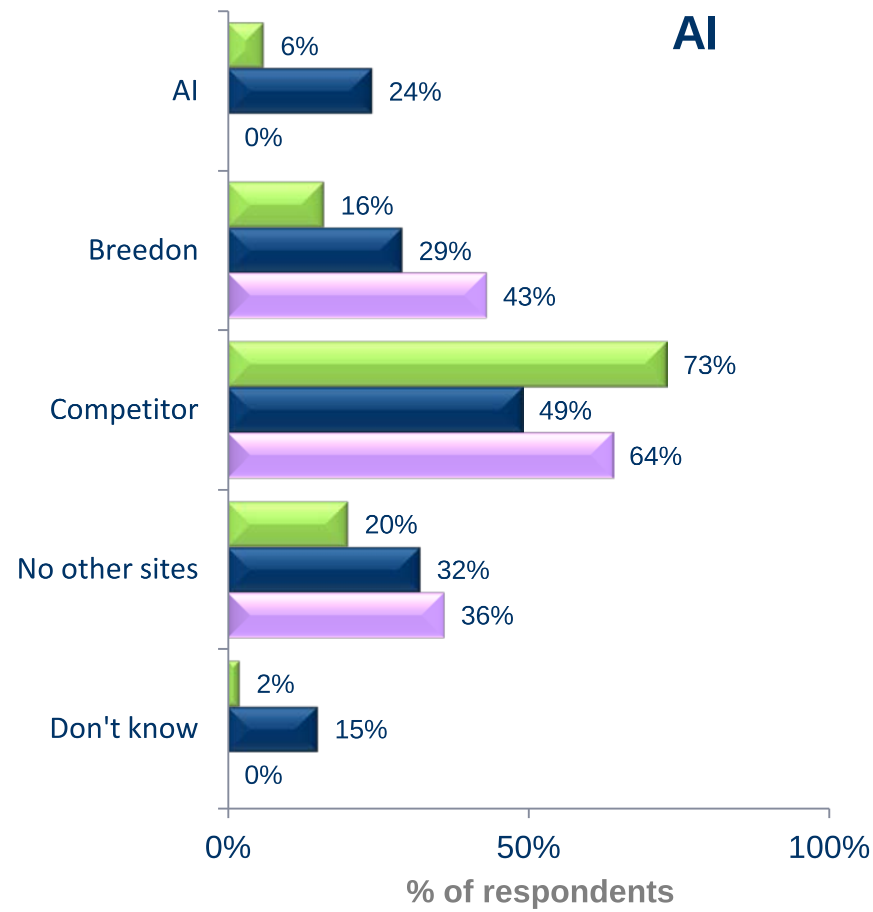
Non-Focal Site Usage

Customers did purchase from a range of other sites, including AI and Breedon sites

Q6 Thinking about your purchases from focal site, did you purchase aggregates/asphalt/RMX from any other site within 30 miles of where you used the product?



Base: ASP – 29*, AGG – 97, RMX – 70)

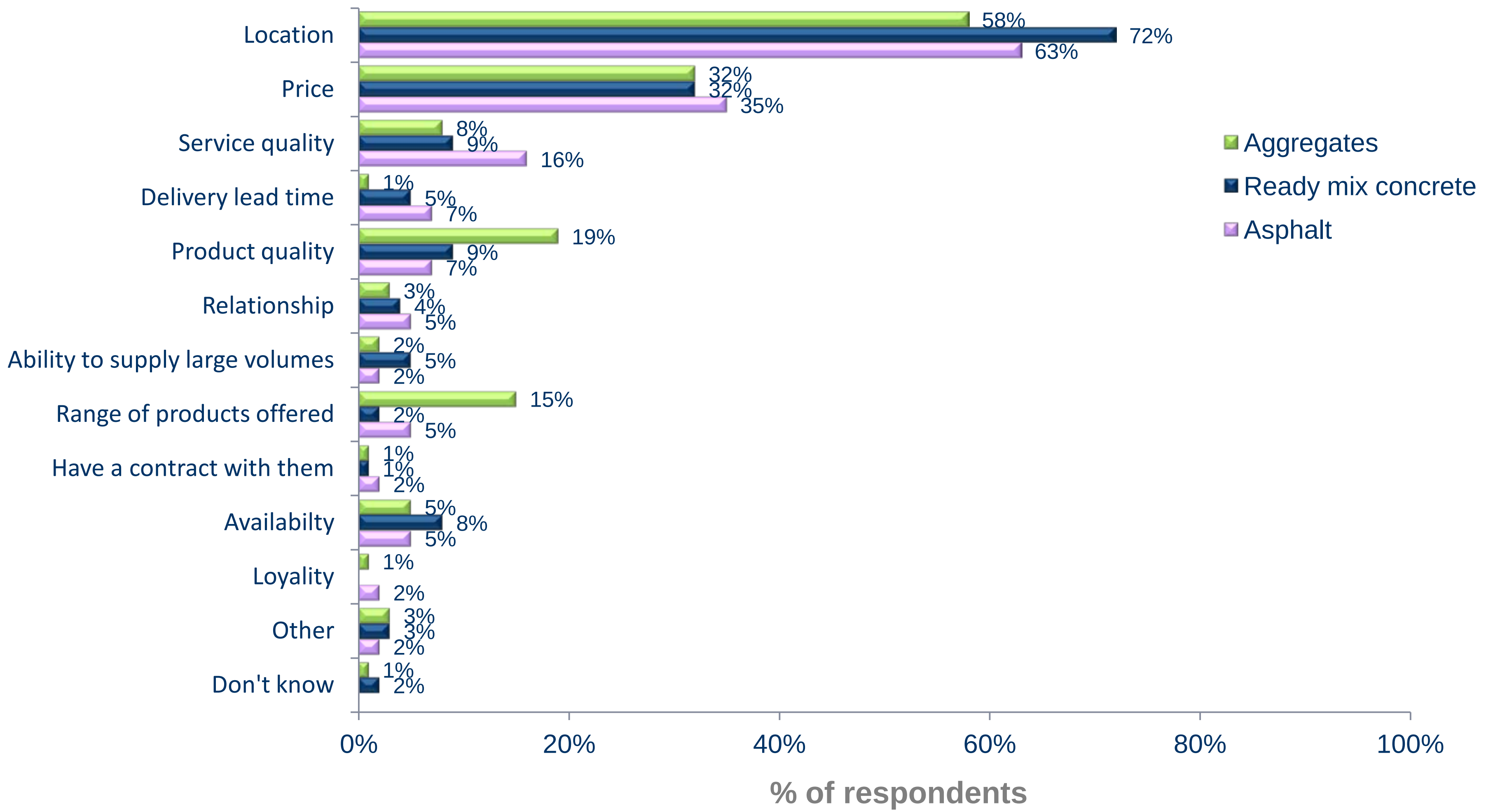


Base: ASP – 14*, AGG – 49, RMX – 41

Focal Site Usage

Location is a key driver for site selection, followed by price

Q19 Why do you buy asphalt , aggregates or ready mix concrete from focal site?

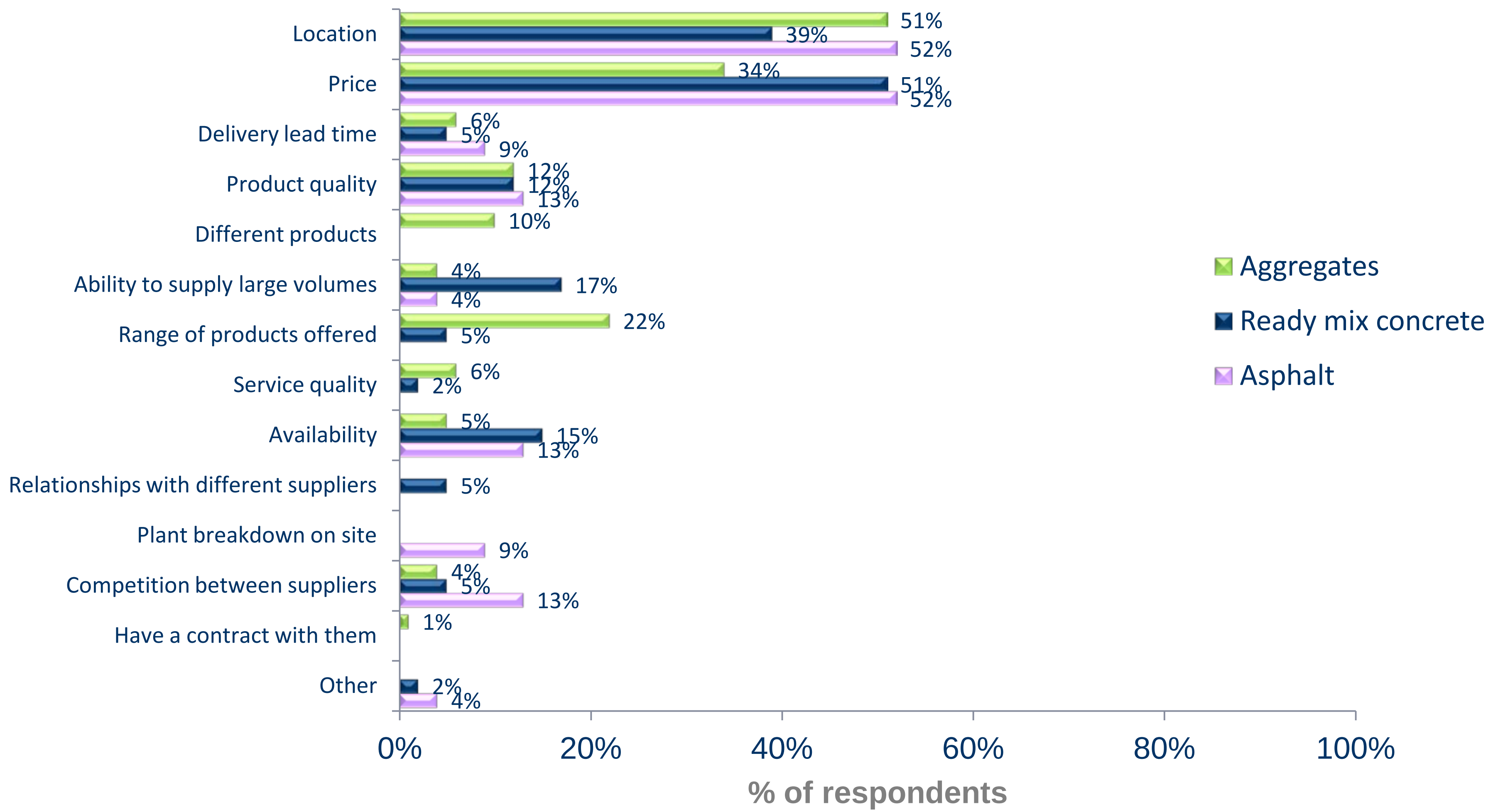


Base: AGG – 146, RMX – 111, ASP – 43

Usage Of Multiple Suppliers

Location and price are key reasons for using more than one supplier

Q8 Why do you purchase from more than one site/supplier?

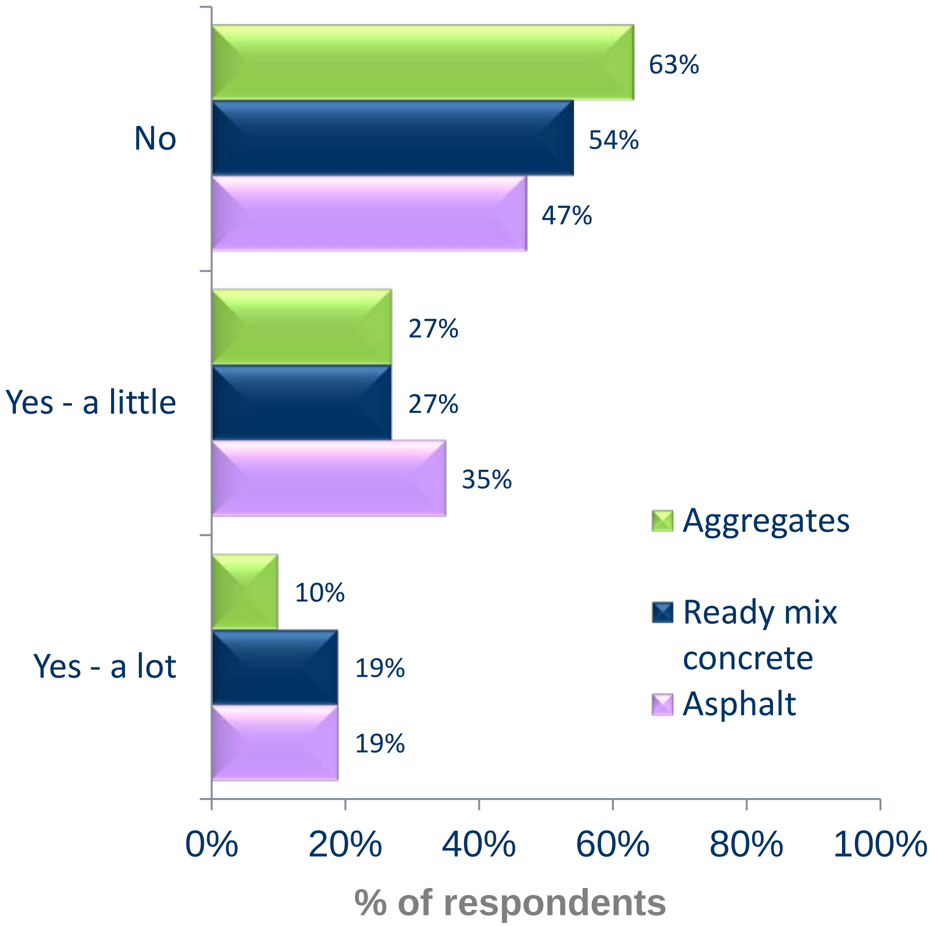


Base: All respondents who purchase from more than one supplier/site (AGG – 78, RMX – 41, ASP - 23)

Supplier Usage

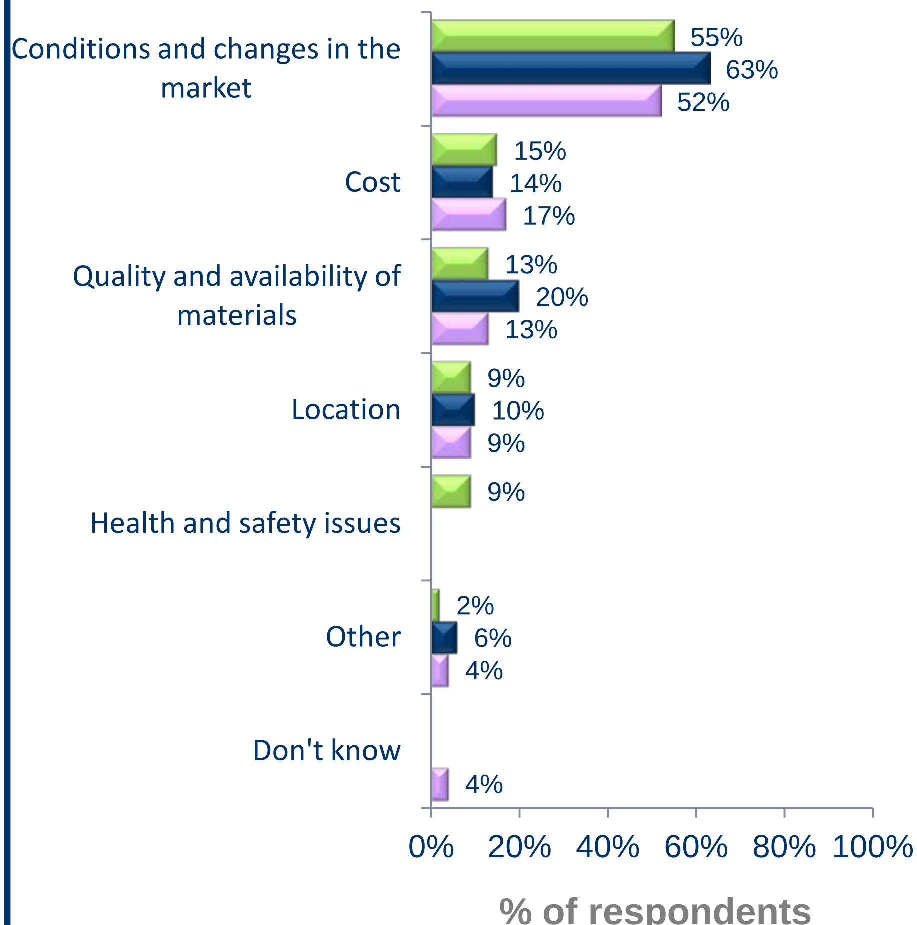
Around half have changed suppliers in the past few years; the key reason is changes in the market

Q9 Have the sites/suppliers you have purchased from changed in the past few years?



Base: ASP – 43, AGG – 146, RMX - 111

Q9a Why?

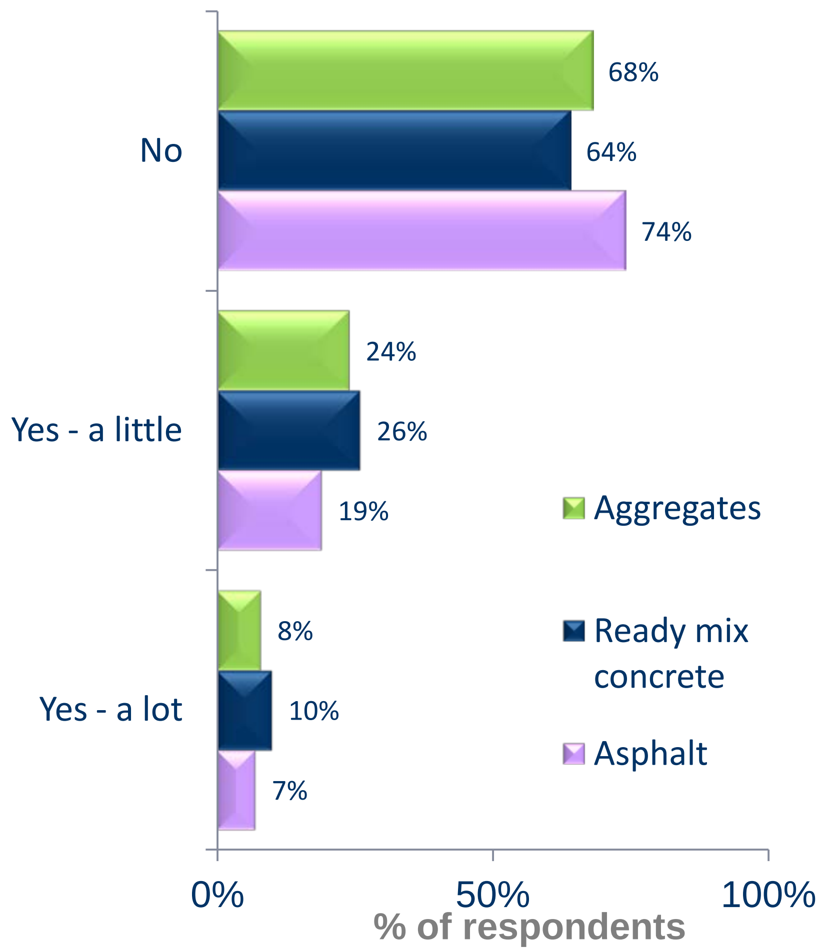


Base: ASP – 23, AGG – 54, RMX - 51

Supplier Usage

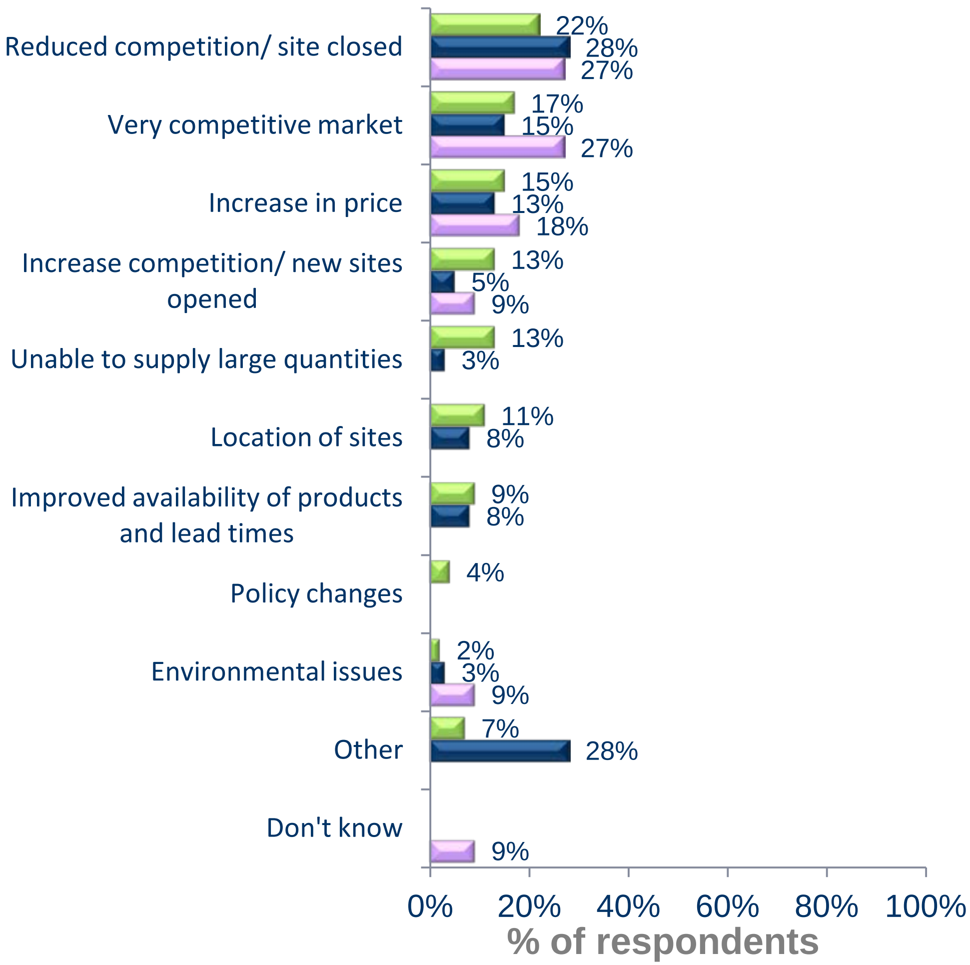
Over two-thirds of customers do not expect to change sites/suppliers in the next two years

Q10 And do you expect the sites/suppliers you purchase from to change in the next two years?



Base: ASP – 43, AGG – 146, RMX - 111

Q10a Why?

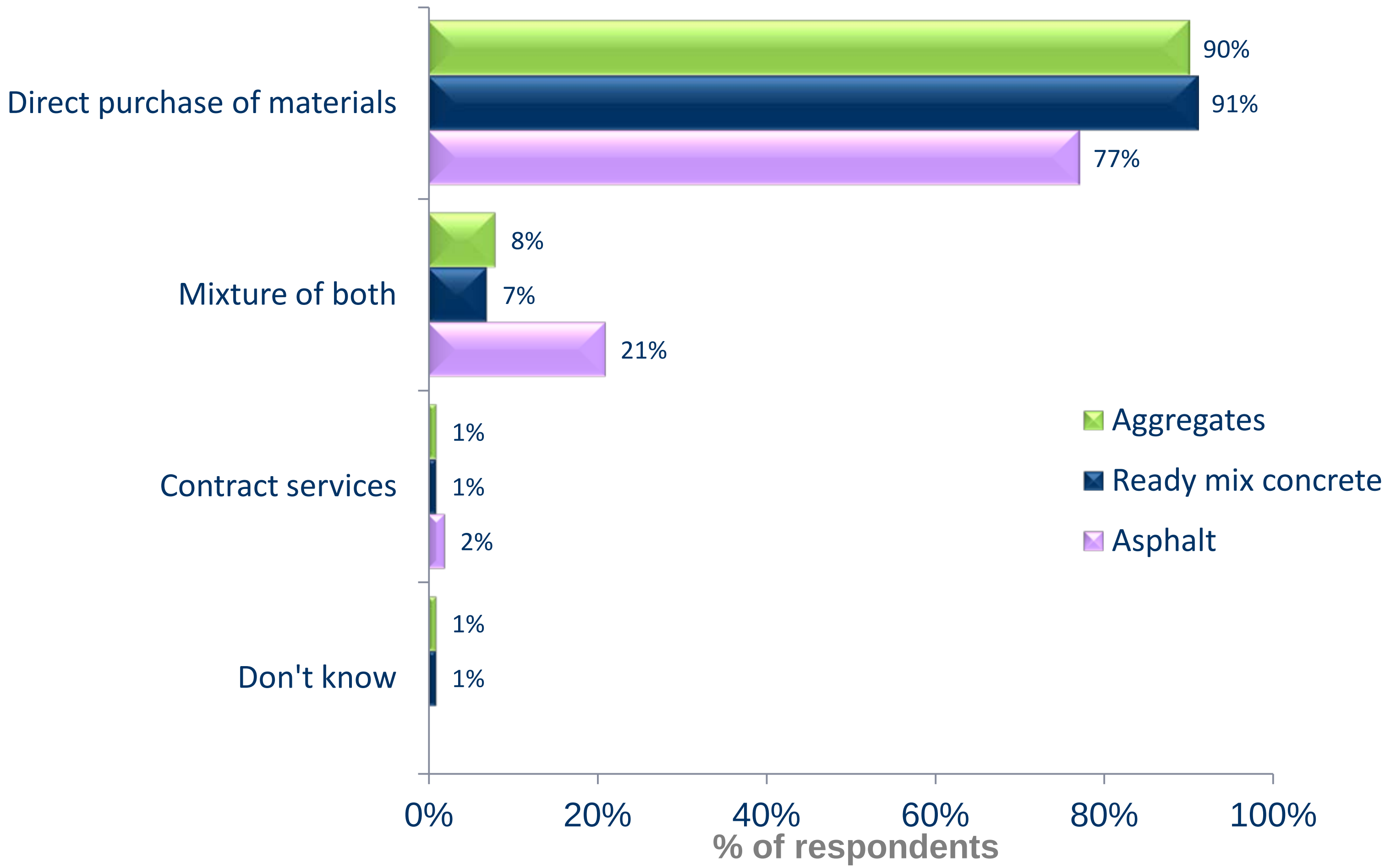


Base: ASP – 11, AGG – 46, RMX - 40

Supplier Usage

Majority just purchase product directly without the need for additional services

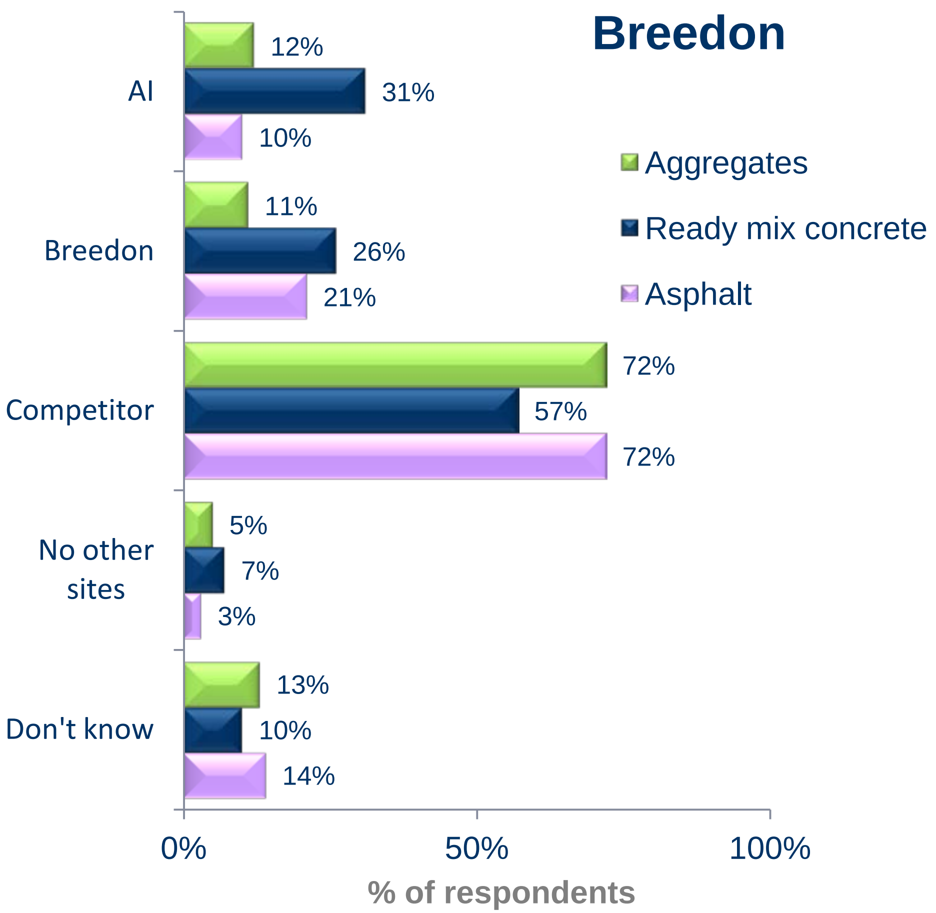
Q13 Do you purchase materials directly (to be delivered or collected) or are they included as part of a contract that includes other services (such as asphalt surfacing)?



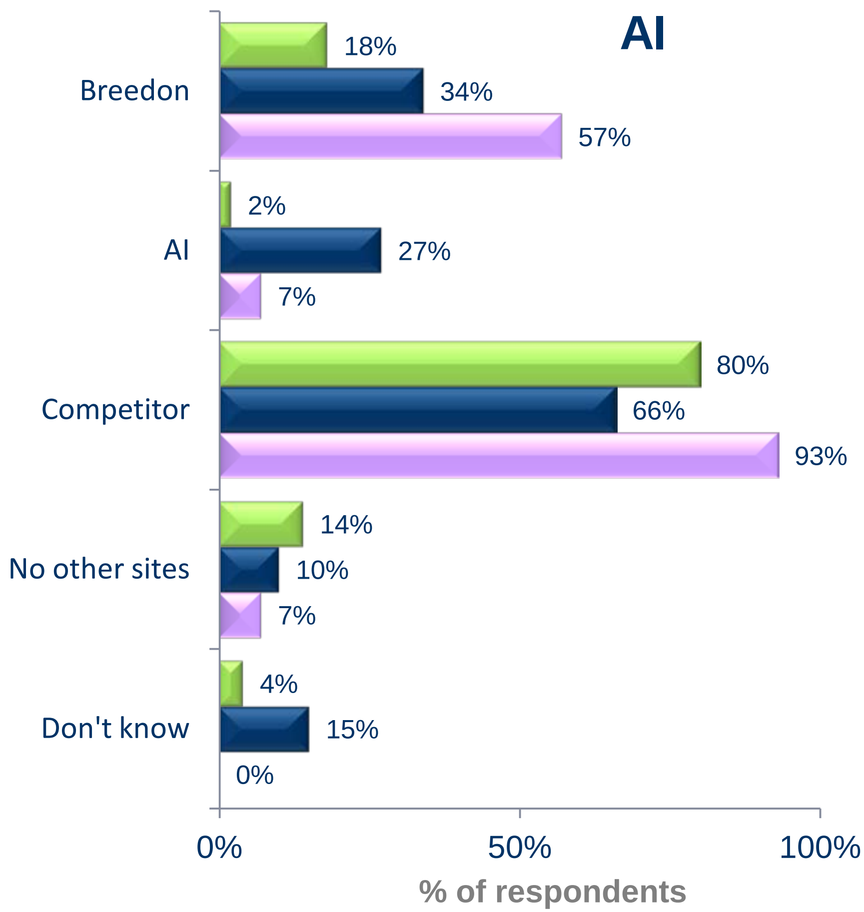
Base: AGG – 146, RMX – 111, ASP – 43

Alternative Supplier Usage
High number of competitor (non Breedon/AI) sites mentioned as alternatives, particularly for asphalt

Q20 Which sites would you consider as alternatives for purchasing PRODUCT in place of FOCAL SITE?



Base: ASP – 29*, AGG – 97, RMX – 70



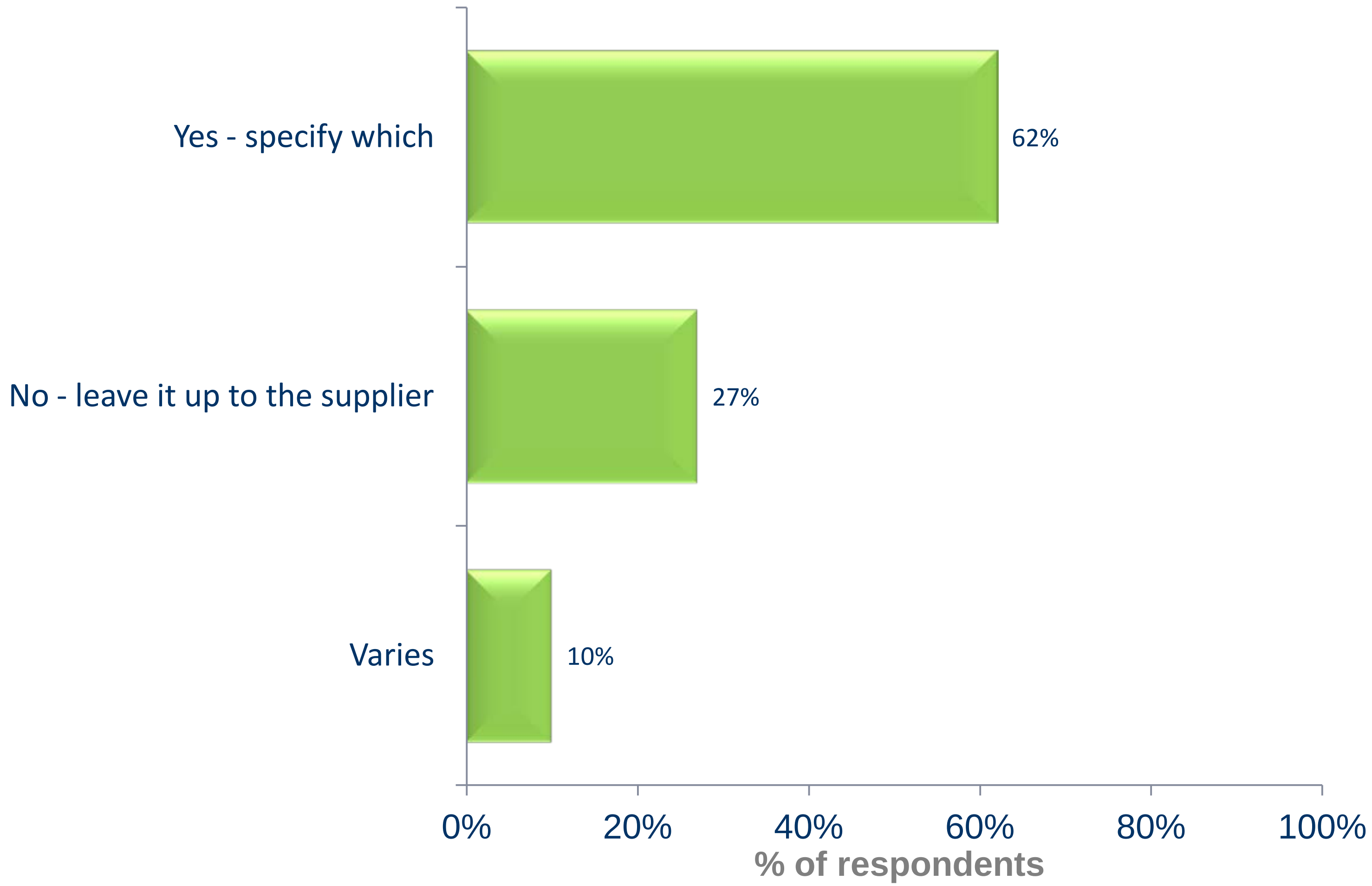
Base: ASP – 14*, AGG – 49, RMX – 41

Aggregates

Supplier Usage

Around a quarter leave the choice of aggregates to the supplier

Q14 When you purchase aggregates from focal site do you specify whether you want primary, secondary or recycled, or do you leave that up to the supplier?

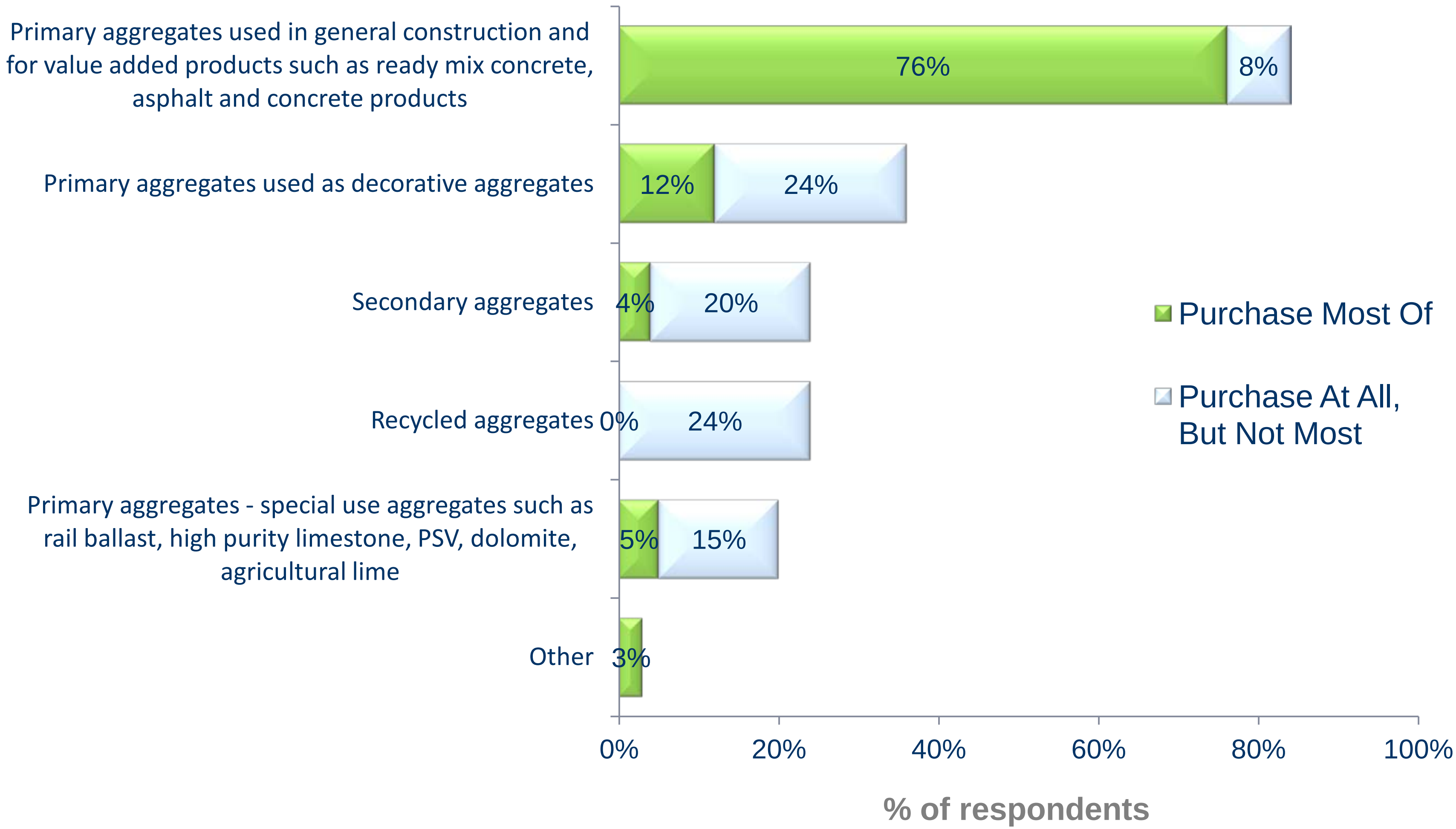


Base: AGG - 146

Product Usage

Primary aggregates is the most purchased type of aggregate

Q15/16 What types of aggregates do you purchase at focal site? MOST OF

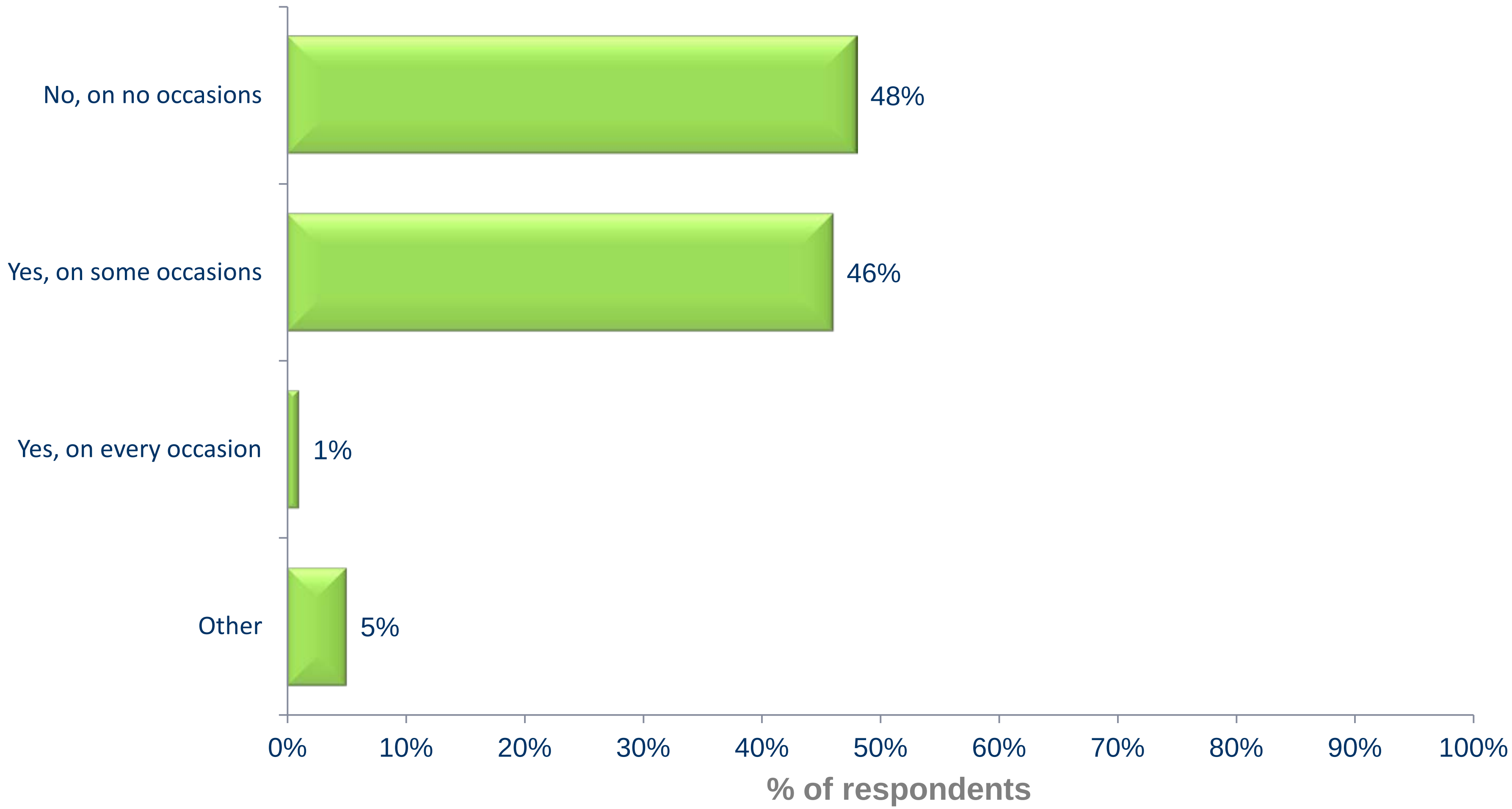


Base: Customers stated they do specify or 'varies' at Q14 (106)

Product Usage

Around half cannot change between primary and secondary

Q17 Could you have changed primary aggregates to secondary or recycled aggregates ?

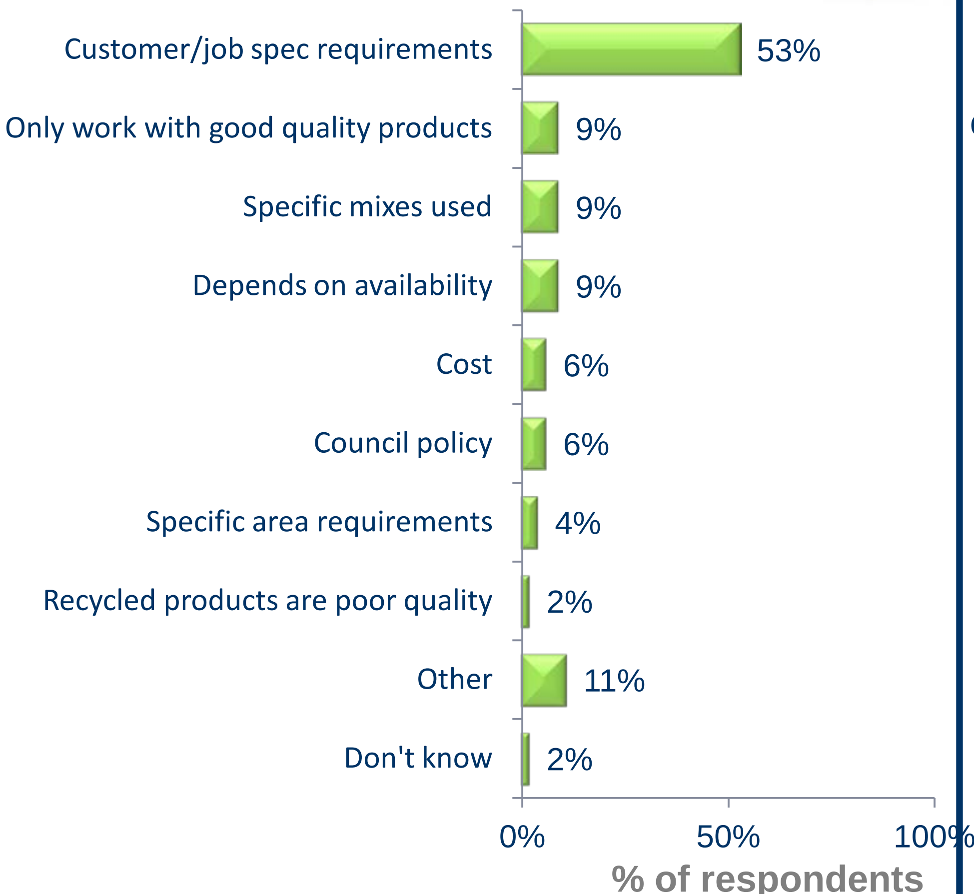


Base: Customers who purchased primary aggregates (102)

Supplier Usage

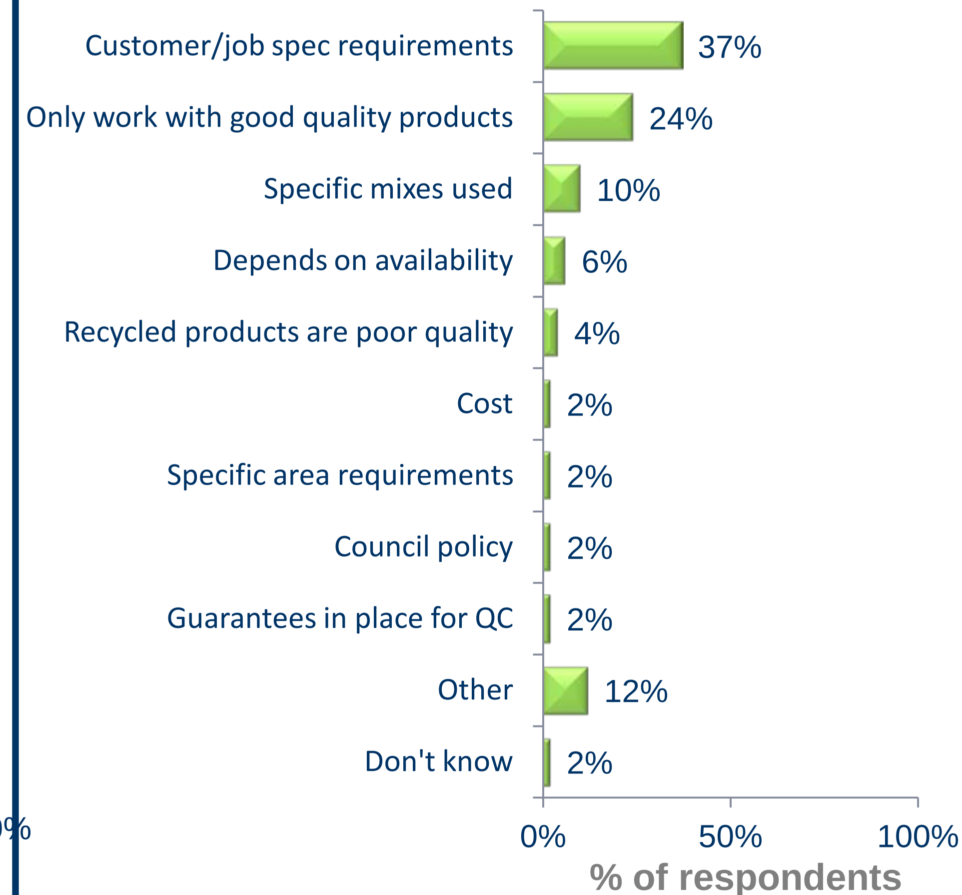
Customers are bound by job specifications as to whether they can change type of aggregates

Q17a Why do you say this? YES AT Q17



Base: Customers who purchased primary aggregates on every/some occasions (48)

Q17a Why do you say this? NO AT Q17



Base: Customers who do not purchase primary aggregates on any occasion (49)

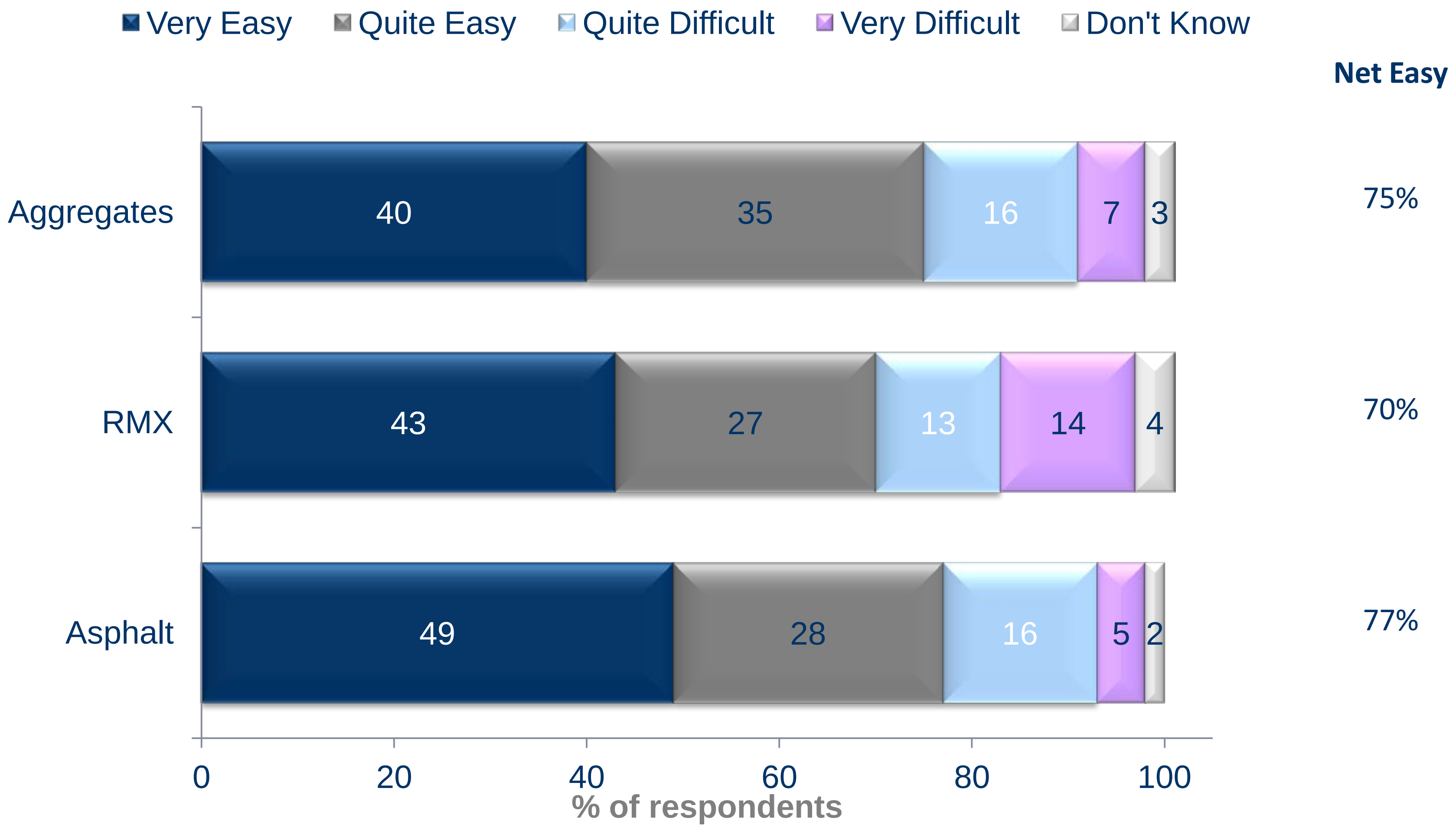
5

Diversion

Diversion

Three-quarters would find it easy to switch purchase sites

Q21 How easy or difficult would it be for you to switch your purchase from (FOCAL SITE) to a different site for the purchase of asphalt, aggregates or ready mix concrete?

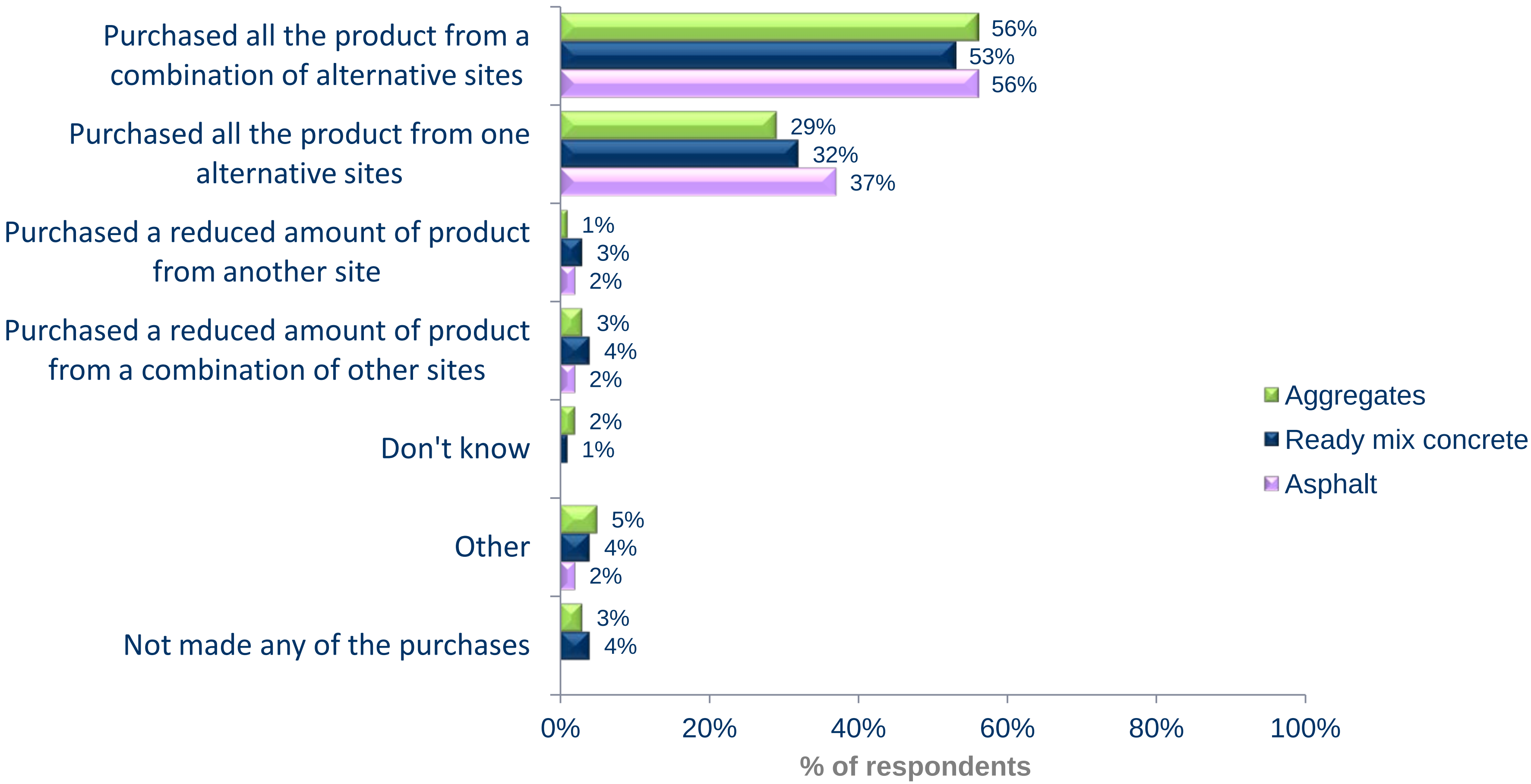


Base: ASP – 43, AGG – 146, RMX - 111

Diversion

Over half would purchase products from a combination of other sites – very few would not have purchased at all

Q23 If (FOCAL SITE from which you purchased asphalt, aggregates, ready mix concrete) had been closed since January 2012. Which of the following best describes what you would have done?

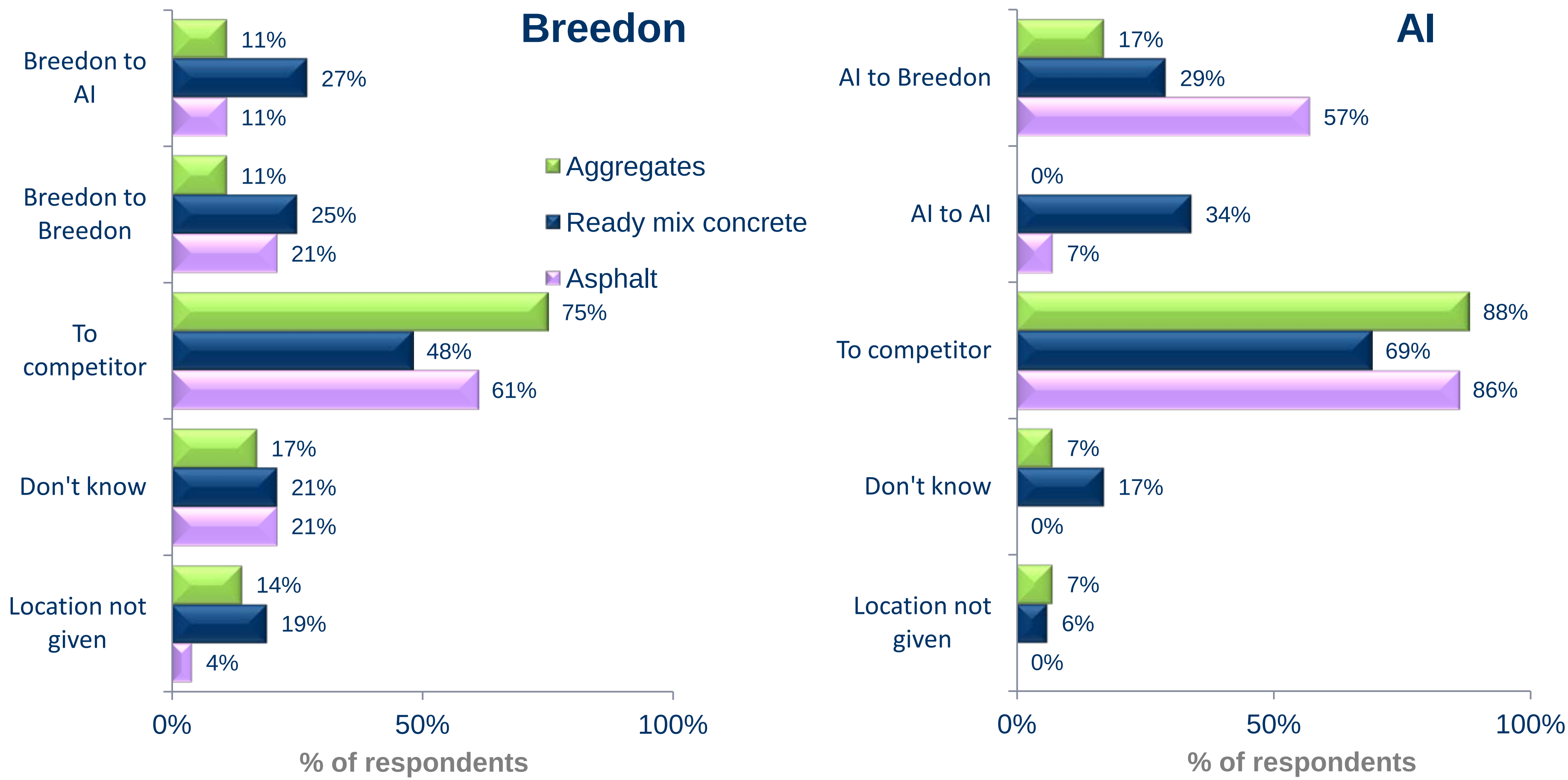


Base: ASP – 43, AGG – 146, RMX - 111

Diversion

Some diversion to the merging party; less so for aggregates

Q23a/b Which other site(s) would you have made the purchases from? -



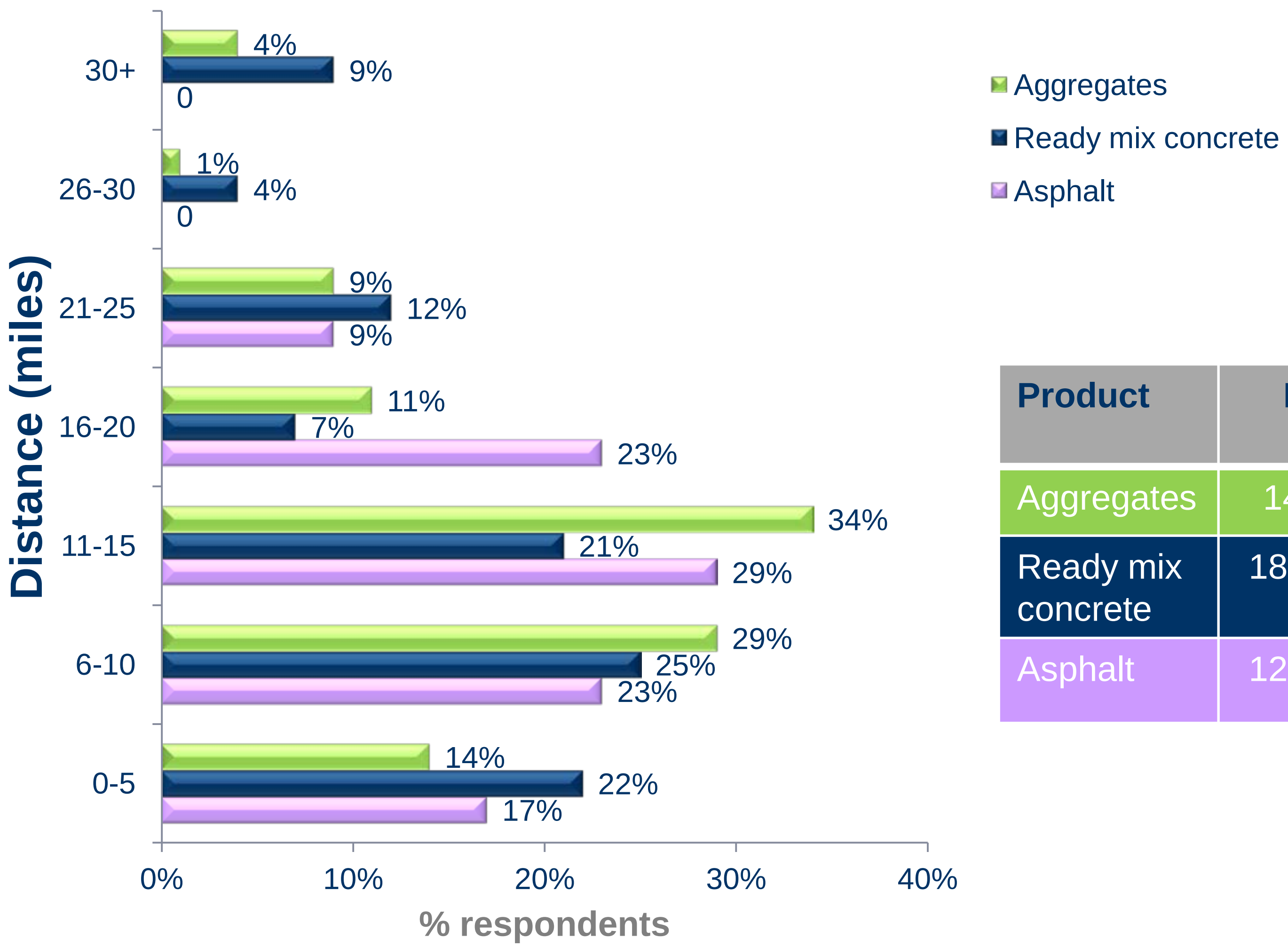
Base: All who would consider another site (ASP – 28, AGG – 88, RMX – 67)

Base: All who would consider another site (ASP – 14, AGG – 42, RMX – 35)

Diversion

Distance in miles (from focal site) of next site choice

Q23a/b Which other site(s) would you have made the purchases from? -



Product	Mean	80% Coverage
Aggregates	14 miles	16 miles
Ready mix concrete	18.4 miles	24 miles
Asphalt	12.1 miles	18 miles

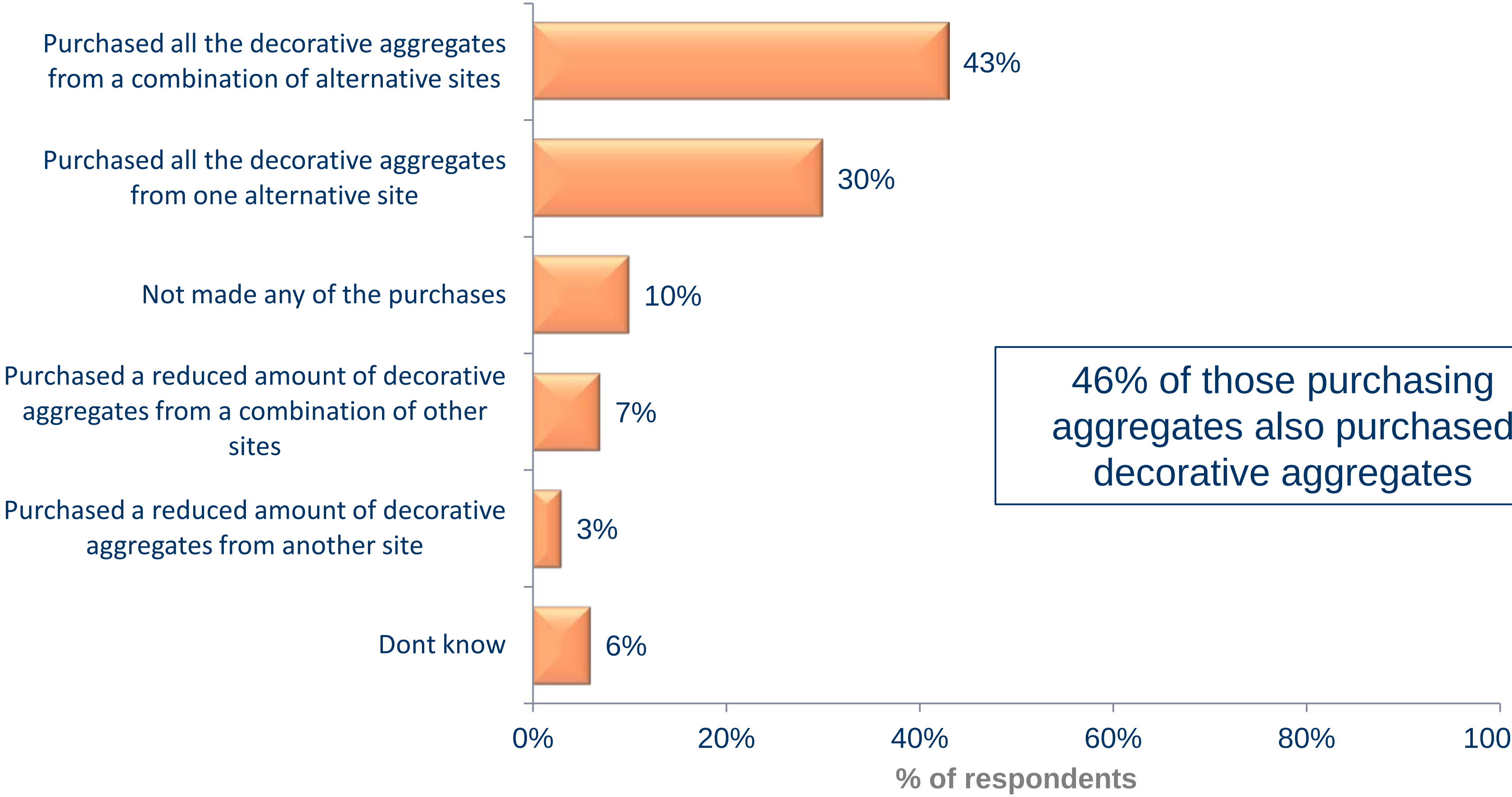
Base:: All giving a distance (ASP – 35, AGG – 109, RMX – 76)

Decorative Aggregates

Diversion

Three-quarters would purchase decorative aggregates from one or more alternative sites

Q24 If (FOCAL SITE) had been closed since January 2012. Which of the following best describes what you would have done?



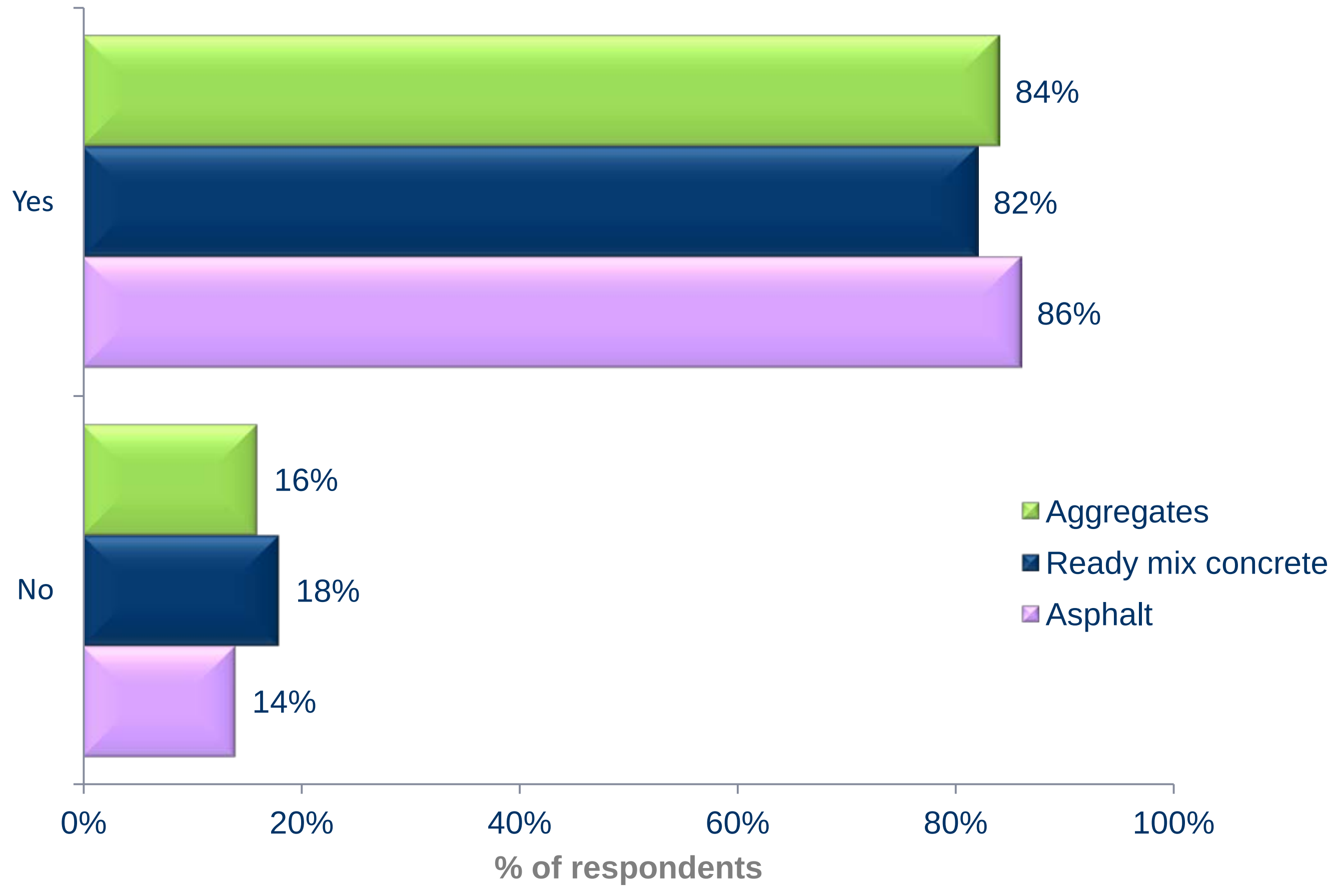
46% of those purchasing aggregates also purchased decorative aggregates

Base: Customers who use aggregates and purchase decorative aggregates (67)

Impact of Merger

Impact Of Merger
Awareness of acquisition was high amongst customers

Q25 Prior to this interview were you aware that Breedon had acquired a number of quarries, asphalt plants, and ready mix concrete plants in North Scotland?



Base: All respondents (231)

Impact Of Merger

In customers' own words

"We used to trade off quarries xx and xx, now my costs will go up because I have no other option, there are no other comparable quarries in the area"

"I think it is really poor for the area, we don't have enough choice in this area anyway and for a company to come in and take over another it means one less company to try and get a cost from"

"With Aggregate Industries I had a £xx credit limit and also with Breedon £xx credit limit so now only have a credit limit of £xx altogether - which makes an impact on cash flow"

"So far we have not noticed any impact, hope it remains like that"

Approx. 50/50 split between those who felt there would be no impact vs those who felt there would be an impact

"In certain areas it will be detrimental - takes AI out of the market place but in some areas they are already a monopoly"

"The main factors to consider are location and price. Where the jobs are, the local quarry will be the cheapest, in certain areas they will be a monopoly, so we will have to cross Aberdeen to get the products, which increases the prices"

6 Summary

Summary – Market Dynamics

- Price and location are the main drivers of choice
- Collecting quotes and negotiating on prices is common
- Customers do purchase products at alternative sites although on average a quarter only purchase from the Breedon/AI focal site
- Also, nearly half of customers have changed sites/suppliers in the past few years
- About a third expect to change sites/suppliers in the next two years
- Around half of aggregate purchasers could switch to secondary and/or recycled, although the type to be used is often contained in the client job specification

Summary – Diversion

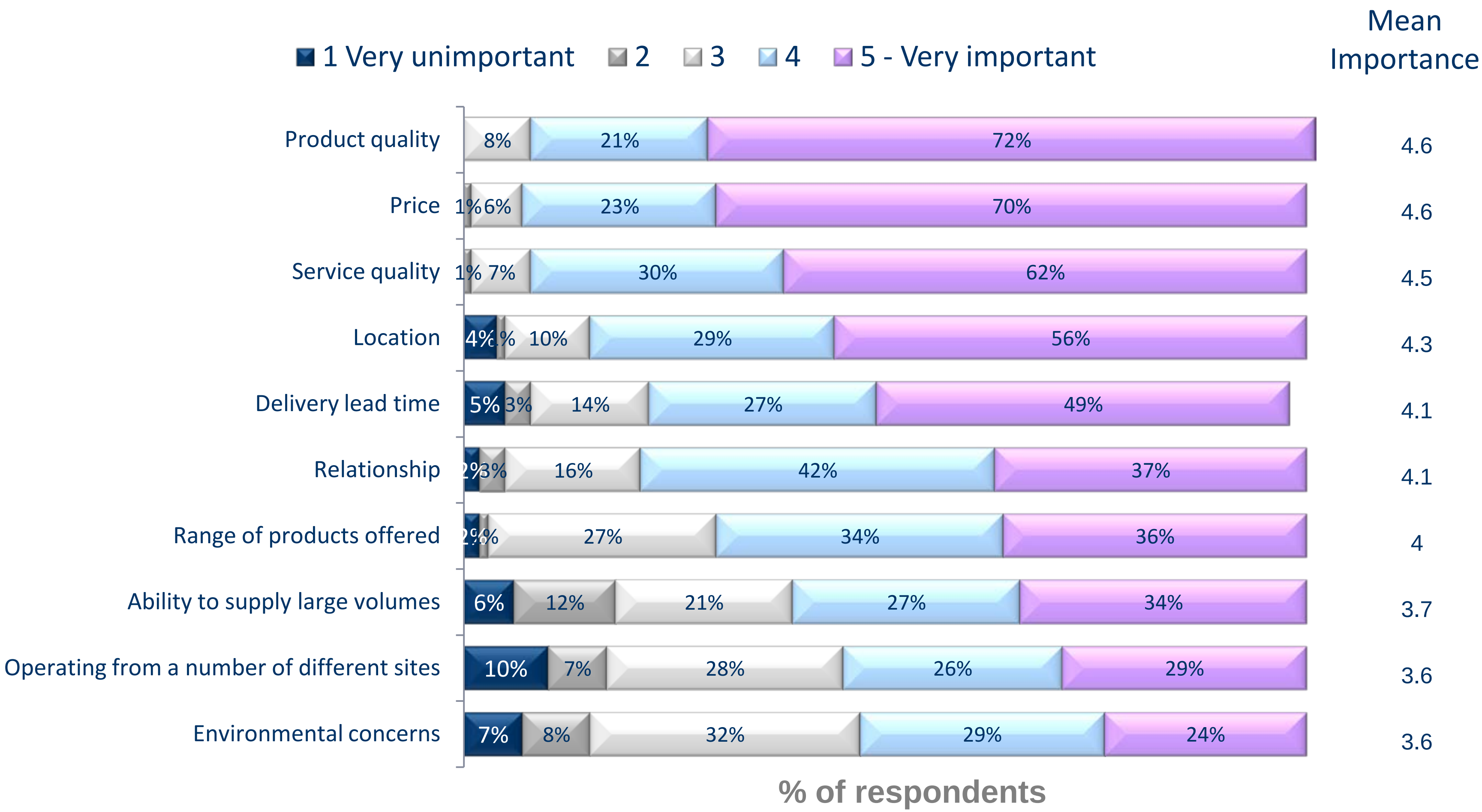
- Very few customers would reduce their purchases if the focal site closed - most would go to a different site if faced with the closure of the focal site
- There is some diversion between the merging parties; although marginally less so for aggregates
- Average travel distance to the nearest alternative site is:
  - Asphalt – 12miles
  - Aggregates – 14 miles
  - RMX – 18 miles
- If the focal site had closed the majority of both Breedon and AI customers would have purchased from competitor (i.e. non AI/Breedon) sites

Any questions?

Appendix

Selecting A Supplier - Aggregates

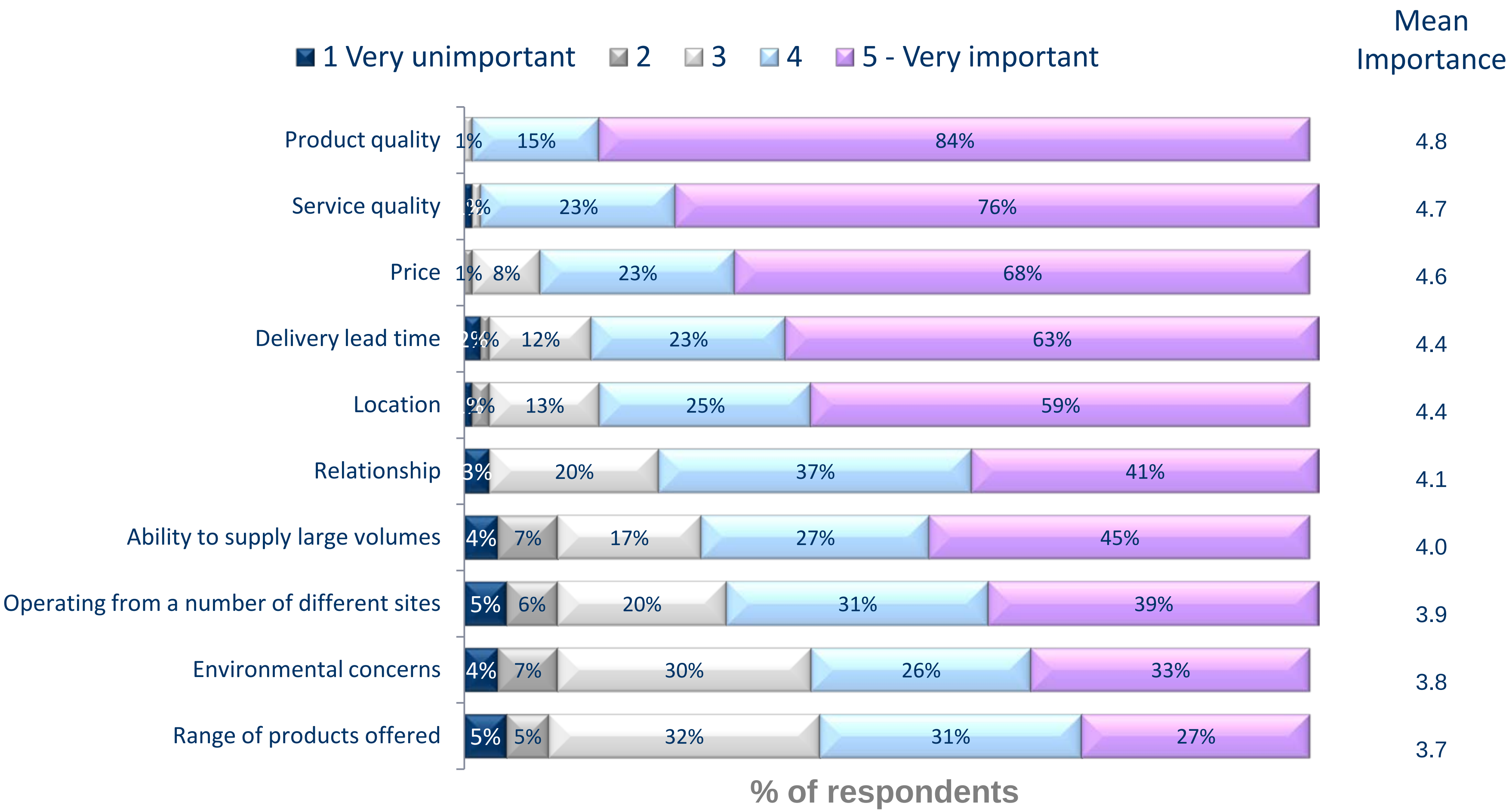
Q5 How important are each of the following when choosing a supplier of aggregates?



Base: AGG - 146

Selecting A Supplier – RMX

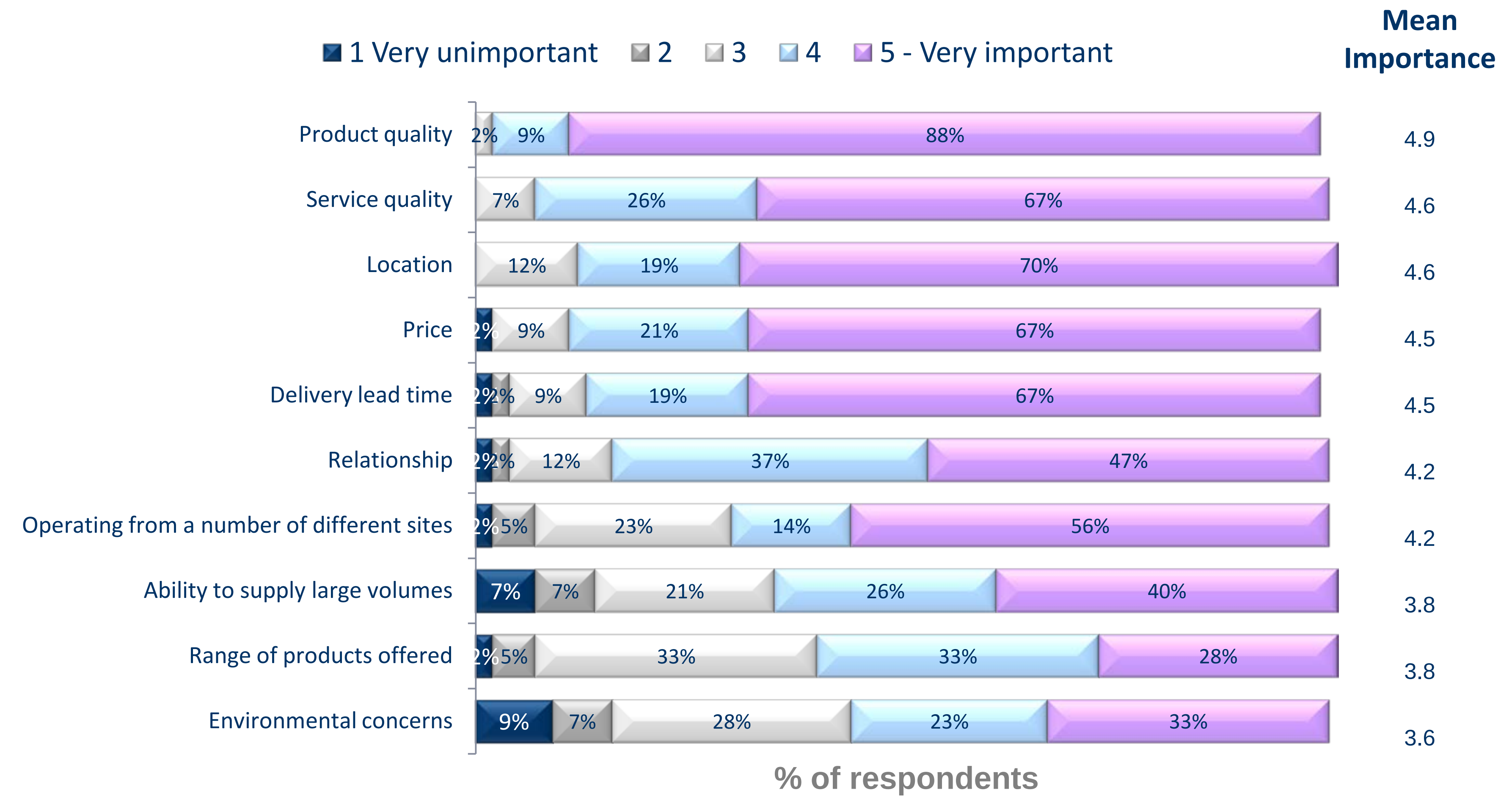
Q5 How important are each of the following when choosing a supplier of ready mix concrete?



Base: RMX - 111

Selecting A Supplier – Asphalt

Q5 How important are each of the following when choosing a supplier of asphalt?



Base: ASP - 43