
Anticipated acquisition by Securitas Services Holding UK Limited of Chubb Security Personnel Limited

ME/4863/11

The OFT's decision on reference under section 33(1) given on 18 March 2011. Full text of the decision published on 25 March 2011.

Please note that the square brackets indicate 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.

PARTIES

1. **Securitas Services Holding UK Limited** is a wholly owned subsidiary of **Securitas AB** (Securitas), a company headquartered in Sweden. In the UK Securitas provides a variety of security services including manned guarding services, alarm monitoring services, project security and crowd management. In 2010 Securitas acquired Reliance Security Services (RSS).¹
2. **Chubb Security Personnel Limited** (CSP) is a subsidiary company of Chubb Group Security Limited which, in turn, is ultimately a subsidiary of United Technologies Corporation (UTC). In the UK CSP provides manned guarding services. In 2009 CSP's UK turnover was a little under £120 million.

TRANSACTION

3. On 14 January 2011 Securitas announced its intention to acquire the entire issued share capital of CSP for £31 million.

¹ Comprising Reliance Security Services Limited, Reliance Security Services (Scotland) Limited and their subsidiary companies.

JURISDICTION

4. As a result of this transaction Securitas and CSP will cease to be distinct. The UK turnover of CSP exceeds £70 million, so the turnover test in section 23(1)(b) of the Enterprise Act 2002 (the Act) is satisfied.
5. The OFT therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
6. The parties notified the transaction to the Office of Fair Trading (OFT) on 31 January 2011 and the OFT's administrative deadline by which to announce a decision in this case is 25 March 2011.

MARKET DEFINITION

Product scope

7. The parties overlap in the provision of manned guarding services, which involves the provision of security services to a wide range of customers. Their principal overlap is in the provision of on-site guards, known as static manned guarding.
8. The parties also overlap in the provision of mobile manned guarding; that is, the provision of mobile security officers who visit customers' sites either as part of a scheduled patrol or in response to events such as security alarm activations. Distinct elements of mobile manned guarding services are identified as: scheduled mobile patrols; key-holding; and alarm response services. Most of CSP's mobile guarding business is subcontracted to another group company (Security Monitoring Centres Limited) but this will not transfer to Securitas as part of the proposed merger.

Static versus mobile manned guarding services

9. The parties submitted that static and mobile manned guarding services comprise a single manned guarding market. They argued that this is consistent with previous decisions of the European Commission² and the

² M.3396 (Group 4 Falck/Securicor).

Competition Commission.³ However, in this case the parties also submitted that the exact definition of the relevant product market can be left open.

10. Third party competitors contacted by the OFT in this case tended to agree that the two type of services comprise a single product market. One noted that there are few providers that specialise only in static or mobile guarding. Another said that the key difference between the two services is that mobile services are shared between a number of customers, whilst static guarding tends to be a dedicated team allocated to a site or customer.
11. The OFT has found that it is not necessary to conclude on the precise scope of the product market since no concerns arise as a result of this transaction on any alternative basis. For the purposes of its competitive assessment, the OFT has taken a cautious approach to the product scope and analysed the merger on the basis of a separate market for each of static and mobile manned guarding. No other possible segmentations were raised by the parties or third parties and the OFT did not consider it necessary to consider further segmentation.

Geographic scope

12. The parties consider that the geographic scope of manned guarding services (whether static or mobile) is national although they submitted that in this case the issue of whether it is national or regional can be left open. In *Securitas/RSS*⁴ the European Commission left the question of the exact scope of the geographic market open. In *Group 4 Falck/Wackenhut*, however, the Competition Commission considered that a supply-side chain of substitution was sufficient to form a national market.
13. Both Securitas and CSP are active across Great Britain but they both organise their manned security activities through a network of regional or local branches. They submitted that the regional branch structure simply reflects the parties' approach to managing customer relationships and recruitment at a local level. Moreover, the parties submitted that having

³ Group 4 Falck A/S and The Wackenhut Corporation: a report on the merger situation, October 2002.

⁴ M.5993 (*Securitas/Reliance Security Services/ Reliance Security Services Scotland*).

offices in a number of key metropolitan centres is sufficient to provide national coverage.⁵

14. There is some variation in pricing across UK regions. The parties argue that any regional variations in pricing are due to variations in labour costs, a view which was supported by competitor responses.
15. On the demand-side, some national customers advertise their security requirements for tender in different batches, often organised on a regional basis.
16. A competitor told the OFT that its customer base is split evenly between regional and national contracts. Another competitor told the OFT that it considers competition to take place on a regional basis noting that regional competition is fierce at the bottom end of the market where customers have only single or regional sites but where various sites spread across the country need to be guarded regional specific suppliers offer less effective competition. Overall, third parties considered that only providers with a national presence can compete for national contracts.
17. The OFT has left the precise geographic market definition open but has examined the effects of the merger on a national and regional bases.

HORIZONTAL ISSUES

Mobile manned guarding

18. In terms of mobile manned guarding services the merged entity would have less than 10 per cent share of supply (nationally) with an increment of less than one per cent. Further, as mentioned in paragraph 8, CSP's mobile manned guarding services are mostly performed under subcontract but these subcontracts will not be transferred to Securitas as a part of the merger.
19. In Northern Ireland, CSP does not subcontract these services but rather supplies them directly and these activities do form part of the merger. However, the parties estimate that in Northern Ireland CSP accounts for less than one per cent of the supply of mobile manned guarding services.

⁵ Securitas has offices in 47 locations across the UK while CSP has offices in 18 locations.

20. The OFT did not receive any concerns from third parties relating to mobile manned guarding services in its market testing. Therefore, mobile manned guarding services are not examined any further in this decision.

Static manned guarding services (national)

21. Static manned guarding services in the UK are worth around £1.5–2 billion a year. The parties' estimates of national shares of supply are reported in table 1. There are a number of market research reports available for the UK security industry.⁶ Moreover, other organisations provide estimates of the overall market size.⁷ The parties have looked at these sources in estimating their shares of supply. However, because the various sources will differ in their estimates, the parties submitted to the OFT lower and upper estimates of national shares of supply for static manned guarding in the UK.

Table 1: Shares of UK static manned guarding (2009, per cent)

Supplier	Share
Securitas ⁸	[10–20]
CSP	[5–10]
Combined	[20–30]
G4S	[15–25]
Mitie	[10–20]
Vision Security	[0–10]
OCS	[0–10]
Corps of Commissionaires	[0–5]
Advance	[0–5]
Interserve	[0–5]
ISS Pegasus	[0–5]
ICTS	[0–5]
Others	[5–35]

Note: Securitas' share includes RSS.

Source: Parties' estimates.

22. Competitors' estimates of shares of supply were broadly consistent with the parties' estimates in terms of post-merger relative scale and ranking of the leading operators.

⁶ For example, by Frost & Sullivan, Key Note Limited and MBD Limited.

⁷ For example, the British Security Industry Association and the Security Industry Authority.

⁸ The parties told the OFT that in 2010 it lost a major contract to G4S. As such, the parties estimate that their combined share may be [15–25] per cent rather than [20–30] per cent (and G4S' share would be correspondingly higher).

23. The parties submitted that the supply of static manned guarding services has characteristics of a bidding market (and hence a snapshot market share based on current contracts held may not be representative of actual competitive constraints). In Securitas/RSS the European Commission agreed.⁹
24. The parties provided bidding data to the OFT.¹⁰ The parties examined around 450 Securitas/RSS bids between the end of 2009 and the end of October 2010. Of these, around 250 Securitas/RSS bids could be used for bidding analysis for the purpose of the OFT's merger investigation.¹¹ The data revealed that CSP had been short-listed in [] per cent of tenders in which Securitas and/or RSS had been short-listed. This is roughly in line with CSP's share of supply. The data showed that G4S and Mitie were short-listed against Securitas/RSS most frequently ([] and [] per cent respectively).
25. Determining how frequently Securitas/RSS bid against the total CSP bids proved to be more difficult because of the way CSP recorded its participation in tenders. However, the parties identified that Securitas/RSS bid against CSP in [] per cent of instances.
26. The bidding data do not indicate that Securitas and CSP were especially close competitors although the OFT is aware that the data may not be comprehensive.
27. Likewise, responses from customers did not indicate that they regarded Securitas and CSP as close competitors. Customers of both parties were most likely to name G4S as being their next best alternative, and a wide range of other competitors were also mentioned by customers as having bid for contracts (for example, Mitie, Vision Security, Advance, OCS and Interserve).

⁹ M.5993, paragraph 28.

¹⁰ The data contained bids for mobile manned guarding services (which would contain tenders entered into by CSP but which do not form part of the merger). However, they submitted that these instances are relatively small (around 10–15 per cent) and thus, if one were to exclude mobile manned guarding services from the bid data the overlapping bids between Securitas and CSP would increase but only very marginally.

¹¹ The main reason why some bid records were not used was because the relevant parties (Securitas, RSS and CSP) had different systems for recording the bid information which made it difficult to match bids between them.

28. The OFT's investigation supported the parties' submissions that switching between suppliers is relatively easy. Contracting with a new supplier will typically entail existing staff transferring across to the new provider under TUPE regulations.¹² In general, this tends to facilitate customer switching and may provide smaller providers with the ability to expand their scale of operations.
29. The parties submit that the majority of contracts are for between one and three years, but an increasing number of the larger contracts contain 90-day break clauses. Securitas has an average annual churn rate of 10–20 per cent.
30. Finally, the parties also submitted that facilities management companies have captured a significant share of the UK static manned guarding market in a relatively short period of time, including through bundling of security services with some facilities management services (such as cleaning and gardening).
31. On a national basis customers were able to identify a wide range of possible suppliers for their needs and switching between them is easy. The evidence available to the OFT indicates that the merger parties have not been especially close competitors. The OFT does not consider that there is a realistic prospect of a substantial lessening of competition arising as a result of the proposed merger on a national basis.

Static manned guarding services (regional)

32. The OFT has examined the proposed merger on a regional basis.¹³ The OFT specifically contacted customers and competitors who operate on a regional-specific basis in the South West and North East. None were concerned about the proposed merger and regional-specific customers could name alternatives to the merger parties for their requirements.
33. The parties' combined share of supply of static manned guarding are highest in the South West and the North East. In the South West the parties have a combined share of supply of around 25–35 per cent (with an increment of around five per cent). The merged entity will therefore be on a par with G4S. Mitie is also present with an estimated 10–15 per cent share

¹² Transfer of Undertakings (Protection of Employment) Regulations 2006.

¹³ In Securitas/RSS (M.5993), the European Commission also undertook regional analysis.

of supply, as is Securi-Guard and Vision Security (with around five–10 per cent share each). A substantial number of other suppliers are present in the area with around a two to five per cent share each.

34. A very similar situation exists in the North East. The parties have a combined share of supply of around 30–40 per cent (with an increment of around five–10 per cent). G4S is estimated by the parties to have around 20–30 per cent share and Mitie has an estimated 10–15 per cent share of supply. Further, IPC Security (five –15 per cent) and Vision Security (around five per cent) are present. Like the South West, a substantial number of other suppliers are present in the area with around a two to five per cent share each.
35. The underlying conditions which facilitate competition at the regional level do not differ from those at the national level (such as ease of switching and a sufficient choice of suppliers).
36. The parties do not overlap on a regional basis in East Anglia, Wales or Northern Ireland. For all other parts of the UK their combined shares are 15–25 per cent (with increments of less than 10 per cent). For both the South West and North East regions, the low increment arising from the proposed merger together with the relatively large number of competitors and the lack of third party concerns leads the OFT to conclude that competition concerns do not arise as a result of the proposed merger on a regional basis.

Barriers to entry and expansion

37. In Securitas/RSS the European Commission found barriers to entry and expansion to be low.¹⁴ In this case the parties submitted that barriers to entry and expansion are similarly low. Competitors agreed. One told the OFT that there is a history of new entrants or smaller players growing their size and market share over time (such as Vision Security).
38. The OFT considered whether licensing may be a barrier to entry. The Private Security Industry Act 2001 introduced a licensing regime which

¹⁴ In relation to total manned guarding services: M.5993, paragraph 27.

applies to the industry. The parties submitted that licences and accreditation can be obtained with ease.¹⁵

39. The OFT also investigated the likelihood of self-supply in the event of a post-merger price rise. Third party views on this were mixed. Some customers did not see security as part of their core competences, and considered that specialist skills and experience were necessary.
40. Given it does not affect the outcome of its competition assessment the OFT has not found it necessary to conclude on whether barriers to entry and expansion are high in this case.

Coordinated effects

41. The OFT investigated whether the proposed merger could be expected to give rise to coordination amongst suppliers of static manned guarding services.
42. The parties submit that:
 - there is no evidence of pre-merger coordination
 - given the number of suppliers, ease of switching, expansion and entry, plus the complexity of the competitive environment, firms would have little or no ability to reach or monitor terms of coordination
 - it is difficult to envisage a punishment mechanism for firms deviating from the coordinated outcome (which would only encourage cheating on the coordination), and
 - coordination would be likely to be undermined by expansion by smaller players or entry by new firms.
43. Further, the parties argued that their bidding data show that they have limited ability to identify which other participants bid for specific contracts.
44. The OFT does not consider that the proposed merger gives rise to concerns about coordination. The industry structure is not symmetric – there are a

¹⁵ Licence applications are usually approved within 30 days.

few large suppliers and a fragmented tail of smaller suppliers. This indicates that firms have different cost structures which, in turn, dampens their incentives to coordinate. Further, despite the three largest suppliers accounting for a relatively large proportion of overall supply, their shares of supply vary between regions.

45. The OFT is not aware of any evidence that CSP behaved as a maverick in the marketplace which may increase the likelihood of coordination amongst remaining suppliers once it had been removed.¹⁶

THIRD PARTY VIEWS

46. The OFT contacted a large number of third parties in this case (in excess of 100). This included customers and competitors who tendered and competed on a national scale and those who tendered and competed on a regional scale. A significant proportion of these responded (including around 20 customers) to the OFT questionnaire and none were concerned about the proposed merger.
47. The OFT notes that customers were able to identify a number of alternative suppliers to the merger parties at both a national and regional level who were able to supply static and mobile manned guarding services in competition with the merged entity.

ASSESSMENT

48. The OFT has investigated the proposed merger on the cautious basis of static and mobile manned guarding services being separate from each other. These services have been examined on both a national and regional basis.
49. The OFT did not find any evidence to indicate that the merger parties have been especially close competitors at either the national or regional level. Customers were not concerned about the proposed merger naming G4S, Mitie, Vision Security and others as viable alternatives that they could use instead of the merger parties. Regional as well as national customers could identify a number of alternate suppliers. The OFT found that the operation of TUPE regulations may serve to facilitate customer switching.

¹⁶ A maverick in this context means a supplier whose pricing and other incentives are substantially different from its competitors.

50. The OFT did not consider that the proposed merger would create or strengthen coordination in the marketplace. The industry is fragmented and shares differ between regions of the UK. Moreover, CSP was not behaving as a maverick before the merger.
51. Consequently, the OFT does not believe that it is or may be the case that the merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

52. This merger will therefore **not be referred** to the Competition Commission under section 33(1) of the Act.