

COMPLETED ACQUISITION BY ZIPCAR, INC OF STREETCAR LIMITED

Statement of issues

10 September 2010

Background

1. On 10 August 2010 the Office of Fair Trading (OFT) referred the acquisition on 21 April 2010 of Streetcar Limited (Streetcar) by Zipcar, Inc (Zipcar) to the Competition Commission (CC) for investigation and report.
2. Zipcar is a US-based commercial car sharing ('car club') company established in 2000. It operates in various cities across the USA and Canada and, since 2007, has also operated in London. Streetcar is a UK car and van club company established in 2004. It operates in 11 towns and cities across the UK, namely London, Brighton, Oxford, Cambridge, Bristol, Edinburgh, Glasgow, Southampton, Maidstone, Woking and Guildford. Streetcar and Zipcar therefore overlap in the provision of car clubs in London.
3. Car clubs provide a network of readily accessible vehicles, parked in local areas, for hourly or daily rental. Car club members book vehicles via the Internet or by phone. Vehicles may be accessed 24 hours a day, subject to availability. At the end of the vehicle rental period, the car must be returned to the parking space from which it was taken.¹ Car clubs are 'self service' in that cars are picked up from and returned to unmanned locations, and paperwork does not need to be completed for each rental period. Members pay a fee to join a particular car club, and an hourly or daily rate for vehicle usage. The cost of insurance, the congestion charge (where applicable) and an amount of fuel (often 30 miles' worth) is built into the usage charge.²
4. Vehicles may be parked in 'on-street' parking spaces, allocated by local authorities to a particular car club, or in 'off-street' parking spaces, to which the car club has gained access through negotiations with the owners of those spaces.
5. Car clubs have grown rapidly in recent years. The parties estimate that the national car club fleet increased in size from 1,320 vehicles to 2,117 vehicles during 2009, and that there were approximately 100,000 car club members in the UK by the end of 2009.
6. The other car club operators currently active in London are Hertz (under the Connect by Hertz brand) and City Car Club.
7. The CC's initial view is that there are three possible ways in which the transaction could harm competition (referred to as 'theories of harm'): (i) loss of competition for members; (ii) loss of competitive bidding for local authority tenders; and (iii) raising barriers to entry. These are discussed below, where we set out our preliminary thinking on the market(s) in which competition might be harmed, the counterfactual against which any loss of competition would be judged, the three possible theories of

¹One-way trips are available for Streetcar members on a limited basis within London, but additional fees and advance notice periods are required.

²See, for example, www.streetcar.co.uk/pricing-1page.aspx.

harm and the limitations that might prevent supplier responses (such as entry or expansion) from restoring competition.

8. We also list some possible efficiencies arising from the transaction.

The affected market(s)

9. We will examine three possible dimensions of the market(s) affected by the merger:

- (a) *The product dimension.* The products affected most directly by the merger are car club services. However, we will also consider the extent to which members can and do substitute between car club services and other ways of making journeys, including car ownership, traditional car rental, public transport, taxis/ licensed mini-cabs and any other modes of travel that appear to be significant). This analysis is relevant not only to how we think about the markets affected by the merger, but also our competitive assessment (see paragraph 13).
- (b) *The geographic dimension.* We will identify the geographic areas within which competition might be affected by the merger. We may assess the size of the geographic area relevant to members (and potential members) when they make their choice of which car club service provider to use, if any. For example, they may consider the options available within a narrow locality or the size and/or density of a car club's network in a wider area may be important. We may also consider the size of the geographic area within which car club operators focus their competitive efforts at establishing a strong presence. For example, operators may focus their efforts at developing a dense network within a particular local authority area, in order to be in a good position to get access to new on-street parking bays, or to benefit from economies of scale or density that operate at this level (see paragraph 19 for a more detailed discussion of economies of scale etc).
- (c) *The member dimension.* We will consider the extent to which car club operators can price discriminate between different sorts of member (and potential member), and whether they could target members that have significantly fewer alternative ways to travel. In particular we will consider two aspects:
 - (i) Are there distinct markets to supply members and potential members with particular requirements that mean other options such as car ownership and car rental are unsuitable?
 - (ii) Given that membership of car clubs is growing, is it possible that car club operators attract new members with advantageous offers while worsening the retail offer to existing members?

This analysis is also relevant to our competitive assessment (see paragraph 13).

The counterfactual

10. We will investigate what would have happened in the absence of the merger (the counterfactual), to provide a baseline against which to assess the effects of the merger. In particular we will consider:
 - (a) whether the parties would have been likely to remain independent and financially viable; and

- (b) the likely expansion plans of the parties. We will investigate whether Zipcar would have entered other areas of London or the UK where Streetcar already operates or whether there were factors that would have limited either party's ability to expand. This analysis will also be relevant to our assessment of the possible loss of potential competition (see paragraph 14).

Theory of harm 1: Loss of competition for members

11. We will analyse the likely effects of the merger arising from the fact that the parties no longer compete in the provision of car club services in existing 'overlap' areas within London (ie those parts of London where both Streetcar and Zipcar operated before the merger). In particular, we will assess whether any loss of competition between them would be such as to allow the merged entity profitably to raise prices, or to worsen other aspects of the retail offer, at least in the short term.
12. Any such loss of competition might arise in respect of competition both for existing and for new car club members.
 - (a) Streetcar and Zipcar may compete for **existing car club members**: Competition between them in the absence of the merger may give one of the merging firms an incentive to offer more attractive terms and higher quality service in order to keep its own members loyal, and to try to take members away from the other.
 - (b) Streetcar and Zipcar may compete to attract **new subscribers** from the same pool of potential car club members. Competition between them in the absence of the merger may give one of the merging firms an incentive to offer more attractive terms and higher quality service so that potential car club members considering switching to a car club will choose that firm rather than the other.
13. In making our assessment, we will consider the following factors:
 - (a) The way in which car club operators compete for members (for example, price, car quality and size, the level of car availability, having a network of cars in a variety of locations, etc).
 - (b) The closeness of competition between Streetcar and Zipcar before the merger. We will examine whether Streetcar and Zipcar's services were closer substitutes for each other than the other options available such as other car club operators, traditional car rental, car ownership, public transport and taxis.
 - (c) Whether there is scope for discrimination between member groups, such that, following the merger, the parties could selectively worsen their services to a proportion of their members. If so, then the assessment of the effects of the merger may be different for each group. The parties may compete differently for existing and new members as set out in paragraph 12 (particularly given the rapid growth in new membership), for heavy and low usage members or for corporate and individual members. Different travel modes may be plausible substitutes for members with different car club usage profiles (for example, car club members who occasionally make long journeys may consider switching to traditional car rental whereas heavy users may be more likely to consider owning their own car).
14. We will also examine whether the merger has resulted in a loss of potential competition in those local areas (both within London and elsewhere in the UK) where only Streetcar operated prior to the merger, but where Zipcar could have launched its services. In assessing this possibility we will, in addition to the factors above,

consider whether, in the absence of the merger, Zipcar would have entered areas where Streetcar currently operates.

Theory of harm 2: Loss of competitive bidding for local authority tenders

15. Some local authorities award on-street parking spaces, in part, on the basis of the benefits to members promised by the competing car club operators seeking on-street parking. In these cases the merger may mean that there is one fewer bidder competing for these contracts and less competition to offer members a good deal. Poorer bids could manifest themselves, for example, in terms of car clubs proposing lower quality or availability of vehicles or more expensive rates to car club members in that area.
16. In making our assessment we will, among other things, consider whether local authorities are able to get better terms for their residents when both Zipcar and Streetcar are bidding separately for contracts.

Theory of harm 3: Raising barriers to entry

17. We will consider whether a merged Streetcar/Zipcar would be able to obtain a larger share of available on-street parking than would have been allocated to Streetcar and Zipcar together prior to the merger. This might be the case if, for example, some local authorities allocate car parking spaces on an all-or-nothing basis (or nearly an all-or-nothing basis) according to the number of members a particular car club has. This would reduce the on-street parking available to competitor car clubs, which could reduce competition if access to on-street parking turns out to be a barrier to entry (see paragraph 19).

Entry and expansion

18. We will consider whether entry by new car club operators, or expansion by existing car club operators, would be likely to be sufficient to replace any loss of competition between Streetcar and Zipcar in the longer term.
19. To evaluate the impact of barriers to entry we may examine the following factors:
 - (a) The extent to which the market is growing. Entry may be more likely if the market is growing.
 - (b) Whether there is a pool of well-placed potential entrants. For example, are traditional car rental companies particularly well placed to enter (or expand any existing car club operations), for example due to their brands, experience or financial resources? Conversely, we will examine whether such companies would be deterred from entering due to the risk of cannibalization of their car hire revenues.
 - (c) Whether there are first-mover advantages and/or economies of scale, scope or density, which mean that the merged firm may take a high proportion of any growth in demand. Such advantages may include:
 - (i) whether access to parking spaces is a barrier to entry or expansion. We will investigate the relative desirability, availability and pricing of on-street and off-street parking, and the processes by which car clubs can obtain each type of parking space. We may also consider whether access to parking bays is long-lived. For example, do contracts typically cover many years?

Are there reasons why, once a particular car club has secured access to some parking bays, it will be better placed to win the contract when it comes up for renewal?;

- (ii) advantages from having a widespread network of cars and/or a denser network of cars within each local market, which may improve vehicle availability through 'trunking efficiencies' (whereby, for example, doubling the number of vehicles provided more than doubles the probability that a vehicle will be available for booking) and make a wider choice of types of vehicle readily available to members (economies of density);
- (iii) there may also be scale advantages (economies of scale) if the average costs of operating a car club decline as the size of the business increases;
- (iv) whether there are any barriers to existing car club members switching to other car clubs or other modes of travel; and
- (v) whether small car clubs and new entrants may find attracting new members difficult without a large advertising spend, for example, because existing and potential car club members are unaware of the options available and/or existing car club members are brand loyal.

Potential efficiencies

20. We will consider whether any merger-specific efficiencies might arise that:

- (a) enhance rivalry between the remaining market participants (for example, between a merged Streetcar/Zipcar and traditional car hire companies, if they are found to compete in the same market) to an extent that outweighs any loss of competition between Streetcar and Zipcar; and/or
- (b) generate relevant customer benefits³ that we may have regard to if we needed to consider remedies to any substantial lessening of competition we might identify. These may include such things as further fleet expansion by a merged Streetcar/Zipcar and/or the creation of a wider or denser network of vehicles.

³Relevant customer benefits are defined in [section 30\(1\)](#) of the Enterprise Act 2002.