



Zipcar and Streetcar

A report on the completed merger between Zipcar, Inc and Streetcar Limited

Members of the Competition Commission who conducted this inquiry

Peter Davis (*Chairman of the Group*)

Roger Finbow

John Longworth

Anthony Stern

Chief Executive and Secretary of the Competition Commission

David Saunders

The Competition Commission has excluded from this published version of the report information which the inquiry group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [X]. [Some numbers have been replaced by a range. These are shown in square brackets.]

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Glossary

Summary

1. On 10 August 2010, the Office of Fair Trading (OFT) referred to the Competition Commission (CC) for investigation and report under the Enterprise Act 2002 (the Act) the completed acquisition of Streetcar Limited (Streetcar) by Zipcar, Inc (Zipcar). The reference requires us to determine:

(a) whether a relevant merger situation has been created; and

(b) if so, whether the merger has resulted or may be expected to result in a substantial lessening of competition (SLC) within any market or markets in the UK for goods or services.

We are required to report by 24 January 2011.

2. Before the merger, Zipcar and Streetcar both ran car clubs in London. Car clubs provide a network of readily accessible vehicles, parked in local areas, for use on a commercial basis. Car club members book vehicles via the Internet or by phone and are able to gain access to vehicles 24 hours a day, subject to availability, using keyless smartcard technology. At the end of the vehicle rental period, the car must normally be returned to the parking space from which it was taken.
3. Car clubs are self-service in that cars are picked up from and returned to unmanned locations. Individuals or corporate customers pay a fee to become members of a particular car club, and then pay hourly or daily charges each time they use a vehicle. 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.
4. Car clubs have grown rapidly in recent years, and this growth is forecast (by industry participants and third parties) to continue. The main 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.
5. Zipcar is a US-based car club company and operates in various cities in North America. Zipcar launched its London operation in 2007 through Zipcar UK Limited (Zipcar UK), a wholly-owned subsidiary of Zipcar. London is the only European city where Zipcar currently operates. Zipcar UK's fleet comprised approximately 375 cars in London at the end of 2009. Zipcar UK's revenue has increased from £0.2 million in 2007 to £2.4 million in 2009. However, it has been loss-making since its launch.
6. Streetcar operates as a car and van club in the UK. It was founded in 2004 and currently operates in 13 towns and cities across the UK including London. By the end of 2009, Streetcar's UK vehicle fleet comprised approximately 1,300 cars and vans. Before it was acquired by Zipcar, Streetcar's main shareholders were its founders and Smedvig Capital AS (Smedvig). Streetcar's turnover was about seven times that of Zipcar UK during 2009. Streetcar's revenue has increased from £3.7 million (12 months pro rata) in 2007 to £16.4 million in 2009. Streetcar was loss-making until 2009, when it made an operating profit of £1.5 million.
7. Zipcar completed its acquisition of the entire issued share capital of Streetcar on 21 April 2010. We found that Streetcar and Zipcar would have shares of supply of car club services in London totalling more than a quarter, whether based on the number of car club vehicles or the number of car club members. On this basis we found that

Zipcar's acquisition of Streetcar created a relevant merger situation within the meaning of the Act.

8. The other car club operators currently active in London are Hertz (under the Connect by Hertz brand) and City Car Club.
9. We found that the relevant product market for the purposes of our inquiry was car club services. We acknowledged, however, that customers of car club services might also use a variety of other transport options, such as car rental, taxis and public transport. Our assessment of the effects of the merger included consideration of potential substitution from car clubs services to these alternatives. Had we considered broader markets for car rental, or even for transport, each with a particular focus on the effects of the merger in the small segment for car club services, our assessment of the effect of the merger on competition would have been the same.
10. We considered there to be three dimensions to the geographical scope of the car club services market:
 - (a) small local markets around car club vehicle locations, defined by the distance customers were willing to walk to get to the vehicle;
 - (b) the 14 London boroughs in which both Streetcar and Zipcar operated before the merger ('the overlap boroughs'); and
 - (c) Streetcar and Zipcar UK company-wide markets, since Streetcar and Zipcar each use one set of prices across their networks. In the case of Zipcar UK, this is effectively the same as a London-wide market, as Zipcar UK only has operations in London.
11. To establish a baseline against which we could assess the competitive effects of the merger, we examined what would have been likely to have happened in the absence of the merger (this is known as the counterfactual). We found that it was likely that, had Zipcar not acquired Streetcar:
 - (a) Streetcar would have remained a financially viable and independent competitive constraint in the relevant market; and
 - (b) both Zipcar and Streetcar would have continued to operate and compete within the London car club market (including growing their networks), and would have continued to have access to finance in the foreseeable future.
12. We examined three possible ways in which the merger could lead to an SLC.
13. First, we considered whether the merger would lead to a loss of competition between Streetcar and Zipcar for car club members in the overlap boroughs in London, enabling them to raise prices or worsen other aspects of their services. We found that:
 - (a) Streetcar and Zipcar competed on the basis of price before the merger. We found that there were constraints from other car clubs and from other transport options (such as car rental, public transport and taxis) on the prices the merged firm could charge. In the case of other transport options, these constraints applied particularly to hire periods of a few hours or less and for hire periods greater than about 8 hours (in the case of Zipcar) and 10 hours (in the case of Streetcar). However, we found that these constraints would be likely to be insufficient to

prevent the merged firm increasing its prices for hire periods in between these durations, which represented about half of all hire periods for both companies;

- (b) Streetcar and Zipcar competed on the basis of network capacity, ie the overall size and geographical coverage of their car club fleets. However, this competition was asymmetric (in that Zipcar faced more fleet size competition than Streetcar) and was limited to the four London boroughs in which both Streetcar and Zipcar had substantial shares of the car club fleet before the merger. Taken together, these factors suggested that the loss of network capacity competition between Streetcar and Zipcar was not likely to be significant; and
 - (c) Streetcar and Zipcar competed on the basis of network density, ie the number of car club vehicles in a given area, which governs the availability of alternative vehicles within easy walking distance of members. We found that the effect of the loss of density competition would be localized. We also found that there would be a loss of potential competition from increased Streetcar and Zipcar density in the overlap boroughs, as they expanded their networks in the absence of the merger. This loss of potential competition would also be localized. We considered further the implications of the finding that network density effects are largely localized when we considered the constraining role of entry and expansion.
14. Second, we investigated whether the merger might lead to less competition during the tender processes used by local authorities to allocate on-street parking to car clubs.
15. We found that this was unlikely to be the case because:
- (a) we concluded that car clubs are only a small component of overall demand for on-street parking and local authorities can decide how many spaces to allocate for car clubs in particular;
 - (b) we found that both on-street parking and off-street parking were potentially suitable for car club operations (although on-street parking was typically considerably cheaper than off-street parking);
 - (c) the London boroughs expressed very little concern about the loss of a potential bidder for their on-street car club spaces; and
 - (d) six outer London boroughs only ever had one car club operator interested in their on-street parking spaces, suggesting that the merger would not result in an actual loss of competition in such allocation processes.
16. Third, we considered whether a merged Streetcar/Zipcar would be able to obtain a larger share of available on-street parking than would have been allocated in total to Streetcar and Zipcar absent the merger. If so, the remaining competitors and potential new entrants could find it harder to expand or enter following the merger, if access to on-street parking were a barrier to entry.
17. We found that it was unlikely that a merged Streetcar/Zipcar would be able to obtain an inappropriately large share of on-street parking because:
- (a) although we found that some local authorities used criteria in assessing bids for on-street parking that could favour larger or more established operators (for example, an operator's level of membership within the local authority area), many other criteria were also used to assess bids for on-street parking. The criteria which could favour more established operators were therefore unlikely to

determine the outcome of bids in isolation. Further, we noted that local authorities controlled the processes by which on-street parking was allocated to car clubs. Local authorities could, in future, alter the criteria they use to allocate their on-street parking to car clubs (and the weight they give to these criteria) if one car club would otherwise be allocated an inappropriately large number of parking spaces; and

- (b) evidence from London boroughs was mixed and did not support the theory that the merger would be likely to result in the merged firm obtaining a greater share of the available on-street parking than Streetcar and Zipcar would have done in total before the merger.
18. We examined whether entry into the car club market (or expansion by Connect by Hertz and City Car Club) would be sufficient to replace the loss of competition between Zipcar and Streetcar for members in the overlap boroughs that we had identified.
 19. We found that the car club market in the UK was likely to continue to grow rapidly. All, else being equal, a growing market will encourage new entrants, as new entrants can gain members without having to win them away from existing relationships with other car club operators.
 20. We found that there were barriers to entry to the car club market. We considered that there were advantages from scale and from having a wide network of vehicles. We also found that access to on-street parking could act as a barrier to entry at a local level. On-street parking is on average cheaper than off-street parking. About half the local authorities in London that make on-street parking available to car clubs implement a 'single-operator' policy, which means that they allocate all their car club spaces to one operator. However, we expected that, taken together, these barriers to entry would be insufficient to deter entry and expansion, given the rapid growth in the market.
 21. There was evidence of two entrants with well-developed plans to enter the car club market in the UK, along with evidence that other large companies in adjacent markets were considering entry. Whilst we could not conclude that entry was certain to occur, we expected, on the basis of the evidence that we saw, that entry was likely, supported by the attractiveness of the London market and prospects for rapid growth. We noted that Connect by Hertz and City Car Club planned to expand, although they told us that their expansion plans were limited by restricted access to on-street parking.
 22. We expected that, taken together, new entry and expansion would be sufficient to constrain the prices and prevent any deterioration in the service levels of a merged Streetcar-Zipcar within a few years.
 23. We therefore expected that, although the merger resulted in the loss of competition between Zipcar and Streetcar such that price rises were likely in the short term, and although some entry barriers existed, entry (together with some expansion) would be timely, likely and sufficient to prevent an SLC from arising. In other words, we expected that entry and expansion would prevent a merged Streetcar-Zipcar from exercising market power to the detriment of consumers in the medium to long term.
 24. We therefore found that the merger may not be expected to result in an SLC in the car club market in London.

25. As set out above, in the course of our inquiry, we noted that about half of the London boroughs that made on-street parking available for car clubs gave all such parking spaces to one car club operator. In those London boroughs, this creates an artificial distinction (at a local level) between the competitive positions of the car club that has on-street parking and the other car clubs that do not. This policy may also have the effect of slowing growth in the market. We therefore consider that the development of the car club market would be assisted by local authorities avoiding any such exclusivity or limiting any such exclusivity to their initial piloting of on-street parking for car clubs. In the latter case, we considered that growth in the market would be assisted if any period of exclusivity lasted no more than a year, after which on-street parking should be made more widely available.

Findings

1. The reference

1.1 On 10 August 2010, the OFT, in exercise of its duty under [section 22\(1\)](#) of the Enterprise Act 2002 (the Act), referred to the CC for investigation and report the completed acquisition of Streetcar Limited (Streetcar) by Zipcar, Inc (Zipcar). The reference requires us to determine:¹

(a) whether a relevant merger situation has been created; and

(b) if so, whether the creation of that situation has resulted or may be expected to result in an SLC within any market or markets in the UK for goods or services.

1.2 We are required to report by 24 January 2011. Our terms of reference are in Appendix A, together with an explanation of how we have conducted our inquiry and the steps we took to ensure the separate and independent operation of the Streetcar business during the course of our inquiry.

1.3 This document (together with its appendices) constitutes our report. Non-commercially sensitive versions of the main party and third party written submissions are on our website, along with other documents relevant to this inquiry. We cross-refer to them where appropriate.

2. The companies and services

The overlap services

2.1 Before the merger, Zipcar and Streetcar both ran car clubs in London.

2.2 Car clubs provide a network of readily accessible vehicles, parked in local areas, for hourly or daily rental on a commercial basis.² Car club members book vehicles via the Internet or by phone and are able to gain access to vehicles 24 hours a day, subject to availability, using keyless smartcard technology. At the end of the vehicle rental period, the car must normally be returned to the parking space from which it was taken. 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 then pay an hourly or daily rate for vehicle usage. The cost of insurance, the congestion charge (where applicable) and an amount of fuel³ is built into the usage charge. Members may be individuals or corporate customers.

2.3 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.

2.4 Car clubs have grown rapidly in recent years. The main 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.

¹Section 35 of the Act.

²We refer to not-for-profit organizations providing similar services as 'community car clubs'.

³The amount varies between car clubs.

- 2.5 The car club operators currently active in London other than the parties to this merger are Hertz (under the Connect by Hertz brand) and City Car Club.

Zipcar

- 2.6 Zipcar is a US-based car club company, headquartered in Cambridge, Massachusetts. The company was established in 2000 and operates in various cities across the USA and Canada, including Atlanta, Boston, Chicago, New York, Philadelphia, Pittsburgh, Portland, San Francisco, Seattle, Toronto, Vancouver and Washington DC.
- 2.7 Zipcar has begun the process of undertaking an initial public offering (IPO) in the USA. The IPO process is currently on hold, pending the outcome of the CC's inquiry.
- 2.8 Zipcar launched its London operation in 2007 through Zipcar UK Limited (Zipcar UK), a wholly-owned subsidiary of Zipcar. London is the only European city where Zipcar currently operates under the Zipcar brand, although in 2009 it acquired a minority interest in Catalunya Carsharing SA (Avancar), which is based in Barcelona and is the largest car club service in Spain.
- 2.9 At the end of 2009 Zipcar UK's fleet comprised approximately 375 cars in London and includes hatchbacks, hybrids, coupes, minivans and saloons.
- 2.10 Zipcar's worldwide revenue for the year ending 31 December 2009 was approximately £81.2 million⁴ (\$131.2 million).
- 2.11 [REDACTED]^{5,6}
- 2.12 Zipcar UK's car club revenue as a stand-alone entity has increased from £0.2 million⁷ (\$0.4 million) in 2007 to £2.4 million⁸ (\$3.7 million) in 2009. Prior to the merger, Zipcar was operating under a plan in which revenue would [REDACTED]⁹ during 2010. However, the [REDACTED]. The latest available management accounts show revenue of £[REDACTED] million to 30 September 2010.
- 2.13 Details of Zipcar UK's pricing are set out in Appendix B. Further Zipcar UK financial information is contained in Appendix C, including its historical profit and loss figures, its performance in 2010 to date and forecasts for Zipcar UK on a stand-alone basis.

Streetcar

- 2.14 Streetcar operates as a car and van club in the UK, headquartered in Wimbledon. It was founded in 2004 and currently operates in 13 towns and cities across the UK: London, Brighton, Oxford, Cambridge, Bristol, Edinburgh, Glasgow, Southampton, Maidstone, Woking, Reigate, Leatherhead and Guildford. By the end of 2009, Streetcar's UK vehicle fleet comprised approximately 1,300 cars and vans across over 1,100 parking spaces.

⁴At 31 December 2009 spot rate of \$:£ 1.6164.

⁵At 31 March 2010 spot rate of \$:£ 1.5184.

⁶At 30 June 2010 spot rate of \$:£ 1.49932.

⁷At 2007 average exchange rate of \$:£ 2.002.

⁸At 2009 average exchange rate of \$:£ 1.5661.

⁹At 2010 average exchange rate to 30 September 2010 of \$:£ 1.5376.

- 2.15 Before it was acquired by Zipcar, Streetcar's main shareholders were its founders and Smedvig Capital AS (Smedvig). Smedvig took an initial equity stake in the Streetcar business in March 2007. [REDACTED]
- 2.16 Streetcar's turnover was about seven times that of Zipcar UK during 2009. Streetcar's car club revenue has increased from £3.7 million (12 months pro-rata) in 2007 to £16.4 million in 2009 and prior to the merger was forecast to [REDACTED] during 2010. The business was loss-making until 2009, when it made an operating profit of £1.5 million under UK generally accepted accounting principles (GAAP) (£0.04 million under US GAAP).
- 2.17 Details of Streetcar's pricing are set out in Appendix B. Further Streetcar financial information is contained in Appendix C, including its historical profit and loss figures, its performance in 2010 to date, forecasts prepared by Streetcar prior to its acquisition by Zipcar, forecasts for Streetcar on a stand-alone basis prepared by Zipcar following the acquisition and forecasts for the combined Streetcar-Zipcar UK business prepared by Zipcar.

3. The merger and the relevant merger situation

Outline of merger situation

- 3.1 Zipcar completed its acquisition of the entire issued share capital of Streetcar on 21 April 2010 [REDACTED].
- 3.2 On completion of the acquisition, Streetcar became a wholly-owned subsidiary of Zipcar.

The background to the merger

- 3.3 The main parties told us that, [REDACTED].
- 3.4 Streetcar told us that in addition to Zipcar, [REDACTED].¹⁰
- 3.5 [REDACTED]
- 3.6 [REDACTED]

The rationale for the merger

- 3.7 One of Zipcar's key reasons for the acquisition of Streetcar and for the timing of the acquisition [REDACTED].
- 3.8 Zipcar also considered that the acquisition would:
- (a) allow Zipcar to use London as a gateway for growth into Europe. Zipcar considered London to be a strategic market as it believed that London had the potential to be one of the top five cities in the world for car clubs;
 - (b) [REDACTED];
 - (c) [REDACTED];

¹⁰[REDACTED]

- (d) enhance Zipcar's customer experience, combining Streetcar's customer service and call centre with Zipcar's technology, and creating a wider network of vehicles in London and beyond to allow the merged firm to compete more effectively with (for example) the major global car rental firms; and
 - (e) increase uptake of car club membership and meet membership expansion targets.
- 3.9 In addition, the main parties told us that their future ability to grow their car club business and ultimately achieve profitability depended on the merger. They would each benefit from the other's experience¹¹ and the merger would also bring benefits to customers. Further, Zipcar considered that there was a [redacted] of a [redacted], which would have [redacted] Zipcar's option for [redacted] in the UK, and would have [redacted] Zipcar's [redacted].
- 3.10 Streetcar's rationale for the transaction was that:
- (a) Streetcar would benefit from [redacted] and [redacted], which would allow the merged firm to [redacted] than Streetcar on its own;
 - (b) Streetcar would have [redacted]; and
 - (c) the transaction offered [redacted] that Streetcar had been examining (and which additionally [redacted] listed above).

Jurisdiction

- 3.11 Under [section 35](#) of the Act, and pursuant to our terms of reference (see Appendix A), we are required to decide whether a relevant merger situation has been created.
- 3.12 Under [section 23](#) of the Act, a relevant merger situation is created if two or more enterprises have ceased to be distinct within the statutory period for reference and either the share of supply test or the turnover test specified in the Act is satisfied.
- 3.13 We are satisfied that Zipcar and Streetcar are both enterprises for the purposes of the Act, and that they have ceased to be distinct as a result of the transaction described in paragraph 3.1.
- 3.14 Under [section 23](#) of the Act, the share of supply test is met if, as a result of the merger, the enterprises which ceased to be distinct have a share of supply of goods or services of any description in the UK, or in a substantial part of the UK of at least one-quarter, or if it already supplied at least one-quarter, it must have increased its share as a result of the merger. The application of the share of supply test is different to the definition of market shares undertaken as part of any analysis of competition within an economic market.¹²
- 3.15 Before the merger, Zipcar and Streetcar both supplied car club services in London. On the basis of the figures set out in Appendix D, we estimate that as at 31 December 2009, Zipcar had a share of supply of car club services in London of [redacted] per cent based on the number of car club vehicles and [redacted] per cent based on the number of car club members, while Streetcar had [redacted] per cent and [redacted] per cent respectively. Together, Streetcar and Zipcar therefore had shares of supply totalling [redacted] per cent based on the number of car club vehicles and [redacted] per cent based on

¹¹The main parties gave examples of each firm's best practices, including Zipcar's [redacted], Zipcar's ability to use [redacted] to analyse and optimize network performance (ie achieve higher availability of vehicles for lower cost) and Streetcar's [redacted].

¹²[Merger assessment guidelines, CC2 \(revised\), September 2010](#) ('the Guidelines'), section 3.3.

the number of car club members¹³. Whether share of supply is calculated in terms of car club vehicles or members, the merger satisfies the share of supply test.

- 3.16 We therefore concluded that a relevant merger situation under [section 23\(1\)](#) of the Act had been created.

4. The relevant markets

- 4.1. The Guidelines state:¹⁴

The purpose of market definition is to provide a framework for the Authorities' analysis of the competitive effects of the merger. The Authorities will identify the market within which the merger may give rise to an SLC (the relevant market). The relevant market contains the most significant competitive alternatives available to the customers of the merger firms and includes the sources of competition to the merger firms that are the immediate determinants of the effects of the merger (ie the Authorities' aim when identifying the relevant market is to include the most relevant constraints on behaviour of the merger firms).

and¹⁵

There are normally two dimensions to the definition of the relevant market: a product dimension and a geographic dimension. ...

(a) The relevant product market is a set of products that customers consider to be close substitutes, for example in terms of utility, brand or quality.

(b) The relevant geographic market: may be local, regional, national or wider. Imports may be taken into account as well as UK products.

- 4.2. The Guidelines also note that in practice, the analysis of the identification of the market or markets and assessment of competitive effects will overlap, with many of the factors affecting market definition being relevant to the assessment of competitive effects and vice versa.¹⁶ The Guidelines go on to note that market definition and the assessment of competitive effects should not be viewed as two distinct analyses. We have adopted this approach in this inquiry. In this section we set out some of our analysis on the relevant product and geographic markets in which we decided to assess the effects of the Streetcar-Zipcar merger on competition and our conclusions. The rest of our analysis of market definition is contained in our assessment of competitive effects.

Product market

Main parties' views

- 4.3. The main parties stated that they operated in a broad transport market, and users of car club services could easily switch to using other transport options, including car rental, taxis and public transport.

¹³These are share of supply figures as at the end of 2009. Our analysis of the latest available management accounts indicates that shares of supply have not changed significantly since then, and that this analysis therefore remains valid.

¹⁴Paragraph [5.2.1](#).

¹⁵Paragraph [5.2.5](#).

¹⁶The Guidelines, paragraph [5.1.1](#).

- 4.4. The main parties explained that customers needed to make three key choices: (i) to join a car club (which might entail deciding to sell—or not to purchase—a car); (ii) to choose a car club for each relevant journey; and (iii) to renew their car club membership at the end of the subscription period. The main parties argued that, in each case, customers would consider other transport options as alternatives to car clubs. The main parties argued that a market consisting of car clubs only would not satisfy the hypothetical monopolist test¹⁷ as required by the Guidelines. They further provided a critical loss analysis which they argued showed that the relevant product market was wider than car sharing.
- 4.5. The main parties further submitted that:
- (a) traditional car rental was a competitive constraint everywhere, and that taxis and public transport were particularly prevalent in London;
 - (b) new developments in car rental (such as deliver-to-the-door services, keyless entry and rental by the hour) showed that car rental was developing in the direction of car club-style services;
 - (c) Streetcar and Zipcar internal documents contained comparisons between car club daily rates and car rental daily rates (and not, for example, pricing comparisons with taxis or public transport¹⁸) only because comparisons with car rental were easier to make;
 - (d) Zipcar tracked car rental prices in all markets that it was in, indicating that car rental prices were a constraint on car club prices;
 - (e) Streetcar considered other transport options as a constraint on its business in its initial business plan in 2003 and its marketing plan in 2004;
 - (f) During 2010, the normal summer peak in car rental prices did not occur. The main parties noted that both Zipcar and Streetcar had experienced a [X] in [X] this year, which was [X] due to a [X] in [X]. The main parties argued that this was consistent with their members taking advantage of the lower-than-usual summer car rental prices and using car rental instead of a car club for making longer journeys; and
 - (g) according to Zipcar, 64 per cent of Zipcar members regularly compared Zipcar and car rental prices.
- 4.6. Further details of the main parties' views of the constraint on car clubs from other transport options are set out in paragraphs 6.10 to 6.11, 6.26, 6.33 to 6.35 and 6.39 to 6.40, in the context of our assessment of the competitive effects of the merger.

Our assessment

- 4.7. Internal documents and marketing materials from Streetcar and Zipcar indicate a strategic focus on competition with other car clubs, particularly in relation to competition to expand their portfolio of parking spaces, but also in relation to setting car club membership and usage fees. Details of this evidence are set out in Appendix E.

¹⁷The hypothetical monopolist test is satisfied if a monopoly supplier of the products or services in question would find it profitable to raise prices.

¹⁸The main parties noted that taxis and public transport were mentioned in their internal documents.

- 4.8. We noted that, according to the other car clubs operating in London, competition between car clubs was important.¹⁹ They provided examples of situations in which they had changed their prices and services in response to actions by other car club operators. They did not provide any similar examples indicating competitive responses to other transport options. A summary of this evidence is set out in Appendix E, although more evidence and a more detailed assessment of substitutability are set out in paragraphs 6.18 to 6.42 in the context of our assessment of the competitive effects of the merger.
- 4.9. As part of our inquiry, we undertook (through our market research company TNS-BMRB) a survey among current and recently lapsed members of Zipcar and Streetcar in London.²⁰ 1,665 members responded to our survey.²¹ Evidence from our survey (set out in paragraph 6.22 as part of our assessment of competitive effects) provides some indication of the proportion of car club members who regard various other transport options as substitutes for a car club, and their likely responses to 5 and 10 per cent²² increases in membership fees and usage charges.
- 4.10. We did not agree with the main parties' critical loss analysis (see paragraph 4.4). When we assessed that analysis, and conducted our own further analysis, we found that the relevant product market was no wider than car clubs (see Appendix E).

Conclusions on product market definition

- 4.11. Streetcar and Zipcar both provide car club services and these are the products that may be affected most directly by any loss of competition following the merger. On the basis of the evidence set out in paragraphs 4.7 to 4.10 we consider that car club services are a relevant market, and, in assessing the effects of the merger, we will pay particular attention to the degree of competition between car club providers, and to entry and potential entry into this market. We acknowledge, however, that customers of car club services may also use a variety of other transport options and our assessment of the effects of the merger will also include consideration of potential substitution from car clubs services to these alternatives.
- 4.12. The main parties expressed concern as to whether a relevant market consisting only of car clubs satisfied the hypothetical monopolist test, as required by the Guidelines.²³ In this case, our assessment of the competitive effects of the merger indicated that, absent entry or the threat of entry, prices were likely to increase as a result of the merger by an amount which would be more than enough to satisfy the hypothetical monopolist test²⁴ (see paragraph 6.21). This means that a market consisting of Streetcar and Zipcar alone would satisfy the hypothetical monopolist test.²⁵ Moreover, the results of our assessment of the main parties' critical loss analysis (see Appendix E) were consistent with a relevant market that was no wider than car clubs.

¹⁹The main parties considered that there could be commercial advantages for other car clubs in our taking a narrow view of the market.

²⁰www.competition-commission.org.uk/inquiries/ref2010/zipcar_streetcar/pdf/101018_car_clubs_survey_report_2nd_draft.pdf.

²¹We also conducted additional research among people who were not members of car clubs to assess general levels of awareness of car clubs. 973 people responded to this part of our survey.

²²See the Guidelines, paragraphs 5.2.10–5.2.12.

²³The Guidelines, paragraph 5.2.1.

²⁴The Guidelines state (paragraph 5.2.12) that, when applying the hypothetical monopolist test, a 'SSNIP' of 5 per cent will normally be used. A 'SSNIP' is a small but significant and non-transitory increase in price. The Guidelines also state (paragraph 5.2.11) that 'In applying the hypothetical monopolist test, the Authorities will assess whether the hypothetical monopolist could profitably raise the price of *at least one* of the products in the candidate market by at least a [SSNIP]' (emphasis added).

²⁵Our assessment of why we believe prices will not increase as a result of the merger in the medium to long term is set out in [Section 7](#).

4.13. In any event, had we considered broader markets for car rental, or even for transport, each with a particular focus on the effects of the merger in the small segment for car club services, our assessment of the effect of the merger on competition would have been the same. This is because, in either case, we would be investigating whether the merger would lead to a loss of rivalry between Streetcar and Zipcar that would allow the merged firm to worsen its retail offer.²⁶

Geographic market

4.14. The evidence we received from the main and third parties relevant to the definition of the relevant geographic market(s) is set out in Appendix E.

4.15. We saw considerable evidence that both the main and third parties believed that car club customers would be willing to walk for up to 10 minutes to access a car club vehicle. Our survey found that 31 per cent of respondents said that the main reason for using a car club rather than an alternative transport option was that it was easy to get to the vehicle.

4.16. We noted that on-street parking, which is an important input to car club operations in the UK, is allocated by local authorities on a per-borough basis and car clubs compete with each other to gain access to this parking (see paragraphs 6.71 to 6.78).

4.17. Car clubs set their prices on a company-wide²⁷ basis, taking into account competitive conditions across the various locations in which they operate.²⁸ The main parties argued that the principal reason for this was to give customers stable, transparent prices to attract them to car clubs and make comparisons with other transport modes easier, although they also argued that company-wide pricing:

- (a) reflected the general competitive constraint on car clubs across a wide area from other transport modes such as taxis;
- (b) meant that London members who used cars outside London did not encounter different prices;
- (c) was desirable because it was difficult to target pricing geographically as car clubs did not have enough information about individual customer requirements (eg whether they had luggage, were travelling in a group etc) to target pricing accurately;
- (d) allowed the use of simple headline prices in advertisements in geographically untargeted media (eg advertising in the London Underground); and
- (e) could be used because car club vehicles could be moved or sold to meet changes in demand rather than having to change prices in a more dynamic way to manage demand.

4.18. While company-wide pricing was the current choice of the car clubs, we considered that car clubs might not always in future choose to implement company-wide pricing as there were some incentives to price locally (ie variations in local competitive conditions). Moreover, company-wide pricing does not preclude local discounts

²⁶See the Guidelines, paragraphs 4.1.2 & 4.1.3.

²⁷When applying the term 'company-wide' to Zipcar, we refer to Zipcar UK.

²⁸The main parties told us that they made pricing decisions on a city-wide basis. We noted that city-wide pricing is effectively the same as company-wide pricing for Zipcar UK as it only has operations in London.

([redacted]). Car clubs can also vary aspects of the retail offer other than price on a local basis, such as vehicle availability.

Conclusions on geographic market definition

- 4.19. On the basis of paragraphs 4.14 to 4.18, we found that the geographic scope of the relevant markets for assessing the effects of the merger were as follows:
- (a) Small local markets around car club vehicle locations, defined by customers' willingness to walk in order to access alternatives, in which both main parties had car spaces (or in which it was likely they would have had car spaces in the near future).
 - (b) London boroughs in which both Streetcar and Zipcar were operating before the merger. These boroughs are: Brent, Camden, City of London, Greenwich, Hackney, Hammersmith and Fulham, Islington, Kensington and Chelsea, Lambeth, Richmond upon Thames, Southwark, Tower Hamlets, Wandsworth and Westminster.
 - (c) Streetcar and Zipcar UK company-wide markets, since car clubs use one set of prices (both in terms of membership fees and hourly/daily rental charges) applicable to all local markets. In the case of Zipcar UK, this is effectively the same as a London-wide market, as Zipcar UK only has operations in London.
- 4.20. We noted that there were London boroughs in which Streetcar had operations before the merger, but Zipcar did not (Barking and Dagenham, Barnet, Bromley, Croydon, Ealing, Enfield, Haringey, Havering, Hounslow, Kingston upon Thames, Lewisham, Merton, Newham, Redbridge, Sutton and Waltham Forest). Similarly, we noted cities outside London in which Streetcar had operations before the merger, but Zipcar did not (Brighton, Bristol, Cambridge, Edinburgh, Glasgow, Guildford, Oxford, Maidenhead and Southampton). Given the evidence about Zipcar UK's expansion plans before the merger (see paragraphs 6.64 to 6.65) we did not consider it necessary to define a separate market for these areas outside London.

5. The counterfactual

- 5.1 We considered what was likely to have happened in the absence of the merger (the counterfactual).²⁹ In this case, given that Zipcar completed its acquisition of Streetcar in April 2010, the counterfactual is what was likely to have happened had Zipcar not acquired Streetcar at that time (not what would happen if the merger were to be prohibited as a result of this inquiry).

The main parties' view

- 5.2 Zipcar and Streetcar argued that:
- (a) pre-merger conditions of competition did not represent a reliable guide to the likely competitive landscape that would have existed absent the merger;
 - (b) [redacted];

²⁹The Guidelines, paragraph 4.3.1, states: '[t]he application of the SLC test involves a comparison of the prospects for competition with the merger against the competitive situation without the merger. The latter is called the 'counterfactual'.

- (c) [REDACTED];
- (d) [REDACTED]; and
- (e) [REDACTED].

5.3 As a result of all these factors, the main parties argued that the counterfactual to the merger was ‘at best weakened competition from Zipcar and Streetcar to attract marginal customers’.

Our assessment

5.4 We examined whether there was any reason to believe that it was likely that any pre-merger competition between Zipcar and Streetcar would have ceased if the merger had not taken place.

5.5 The Guidelines state³⁰ that ‘the CC will typically incorporate into the counterfactual only those aspects of scenarios that appear likely on the basis of the facts available to it and the extent of its ability to foresee future developments; it seeks to avoid importing into its assessment any spurious claims to accurate prediction or foresight’. In this context, we noted that Streetcar told us [REDACTED]. Whilst we noted the possibility that Streetcar might have been acquired by (or otherwise entered into a strategic partnership with) a third party, these developments were sufficiently difficult for us to predict with any certainty that, in light of the Guidelines, we did not consider this possibility relevant to our assessment of the counterfactual.

5.6 In assessing the counterfactual, we therefore focused on whether, in the absence of the merger:

- (a) Streetcar’s viability as a stand-alone business would have materially deteriorated to the extent that it would no longer offer the same competitive constraint to Zipcar as it did prior to the merger; and
- (b) whether the strategic direction of Streetcar and Zipcar would have been materially different, in terms of the competitive conditions generated, to that pursued pre-merger.

Streetcar’s financial viability, including access to finance

5.7 As set out in Appendix C, Streetcar’s historical performance demonstrates rapid growth and the achievement of profitability in 2009. Streetcar’s 2009 statutory accounts indicate that, before the merger, Streetcar’s directors expected this growth and profitability to continue.

5.8 We reviewed Streetcar’s year-to-date (YTD) performance and financial forecasts for FY10 and FY11 (financial years—see Appendix C). We assessed whether Streetcar’s current or forecast financial performance demonstrated any signs of a significant deterioration in its ability to compete effectively in its key markets of operation. Our analysis of Streetcar’s YTD and forecast financial performance is set out in Appendix C.

5.9 Based on this analysis, we noted that as a stand-alone entity (ie excluding any synergies), in YTD 2010 both before and after the merger, Streetcar [REDACTED].

³⁰The Guidelines, paragraph 4.3.6.

- 5.10 We could not conclude whether [REDACTED]. For example, [REDACTED]. We also noted (a) Streetcar's comments in its 2009 statutory accounts anticipating strong growth; and (b) the [REDACTED] purchase consideration that Zipcar was prepared to pay for the Streetcar business (see paragraph 3.1), [REDACTED] but [REDACTED] (see paragraphs 7.3 to 7.5)—although we acknowledged that it might also take into account anticipated efficiencies arising as a result of the merger.
- 5.11 We asked Streetcar's financiers whether they intended to continue financing Streetcar and whether their intentions had changed as a result of the merger. We also took into account [REDACTED]. The evidence we considered is set out in more detail in Appendices C and F. [REDACTED] we found that Streetcar was likely to retain the support of its financiers for the foreseeable future.³¹ Even if there were some restrictions on the finance available to Streetcar that would have slowed its expansion, this would not have made a significant difference to our analysis of the competitive effects of the merger. It would be impossible for us to forecast the evolution in market shares that would have resulted in a growing market, had Streetcar been financially constrained to the extent that it was prevented from expanding its network further. In accordance with the Guidelines (see paragraph 5.5) we do not consider it appropriate to incorporate such effects into our counterfactual.
- 5.12 The main parties argued that the attitudes of Streetcar's funders were predicated on [REDACTED]. Further, the main parties pointed out that some of Streetcar's funders had [REDACTED]. However, our discussions with Streetcar's funders [REDACTED]. Further, we noted that banks in general had commercial reasons to give their customers incentives to maintain performance by suggesting that funding was not certain to continue. We also noted that the fact that [REDACTED].
- 5.13 We concluded that, before the merger, Streetcar did not consider itself to be a weak competitor and that, had the merger not taken place, Streetcar would have continued to compete with Zipcar.

Strategic direction of Zipcar

- 5.14 Zipcar told us that, had the merger not taken place, [REDACTED].
- 5.15 Zipcar noted that, [REDACTED].
- 5.16 We explored both these alternatives, but did not consider either of them to be likely because:
- (a) Zipcar told us that it had no experience of franchising and that this was [REDACTED];³²
 - (b) Zipcar's own research,³³ reviewed by the Zipcar board in December 2009, showed [REDACTED];
 - (c) As set out in paragraph 2.12, Zipcar UK's car club revenue as a stand-alone entity has increased from \$0.4 million (approximately £0.2 million) in 2007 to \$3.7 million (approximately £2.3 million) in 2009 and prior to the merger was forecast to [REDACTED] during 2010. This indicates to us a business that has grown rapidly. [REDACTED]

³¹The main parties noted that, since the merger, Streetcar had [REDACTED]. For the same reasons, although we noted that [REDACTED], this did not change our conclusions on the counterfactual.

³²In any event, franchising to an independent third party would not have changed the competitive structure of the market.

³³Supported by [REDACTED].

(d) We noted Zipcar's contention that, while London was potentially a very attractive market, the relatively high costs associated with the London market when compared to other international markets meant that car clubs had not to date managed to achieve a level of sustained profitability. We note that both Greenwheels and Mobility (a Swiss-based car club) were profitable in various European markets, indicating that the car club model had been successful in those markets. We saw no fundamental reason, and were not provided with evidence of any reason, why car club operators in the UK could not eventually replicate this success, given the variety of business models available to them.

(e) Zipcar was keen to [redacted] (indeed, as set out in paragraph 3.7, this was one of the Zipcar's key reasons for acquiring Streetcar).

5.17 Zipcar subsequently explained that [redacted]. Zipcar also told us that, had the merger not taken place and [redacted]. For 2010, it planned [redacted] new vehicles (against a backdrop of an existing fleet of [redacted] vehicles).³⁴

5.18 In light of the considerations set out in paragraphs 5.16 and 5.17, we concluded that, if the merger had not taken place, it was likely that Zipcar would have continued to operate and compete within the UK car club market for the foreseeable future.

Strategic direction of Streetcar

5.19 As set out in paragraph 5.13, we found that, had the merger not taken place, Streetcar would have continued to compete with Zipcar. Streetcar told us that, if the merger had not taken place, it would have targeted any expansion at pockets of customers with demographics favourable to car club membership, both within and outside London. We saw no evidence to suggest that, whatever strategy Streetcar pursued had the merger not taken place, Streetcar would have competed less vigorously in the relevant markets.

Conclusions on the counterfactual

5.20 On the basis of our analysis set out in paragraphs 5.4 to 5.19, we concluded that, in the absence of the merger:

- (a) Streetcar would have remained a financially viable and independent competitive constraint and would have continued to operate and compete within the UK car club market;
- (b) Zipcar would have been [redacted] and therefore would also have continued to operate and compete within the London car club market; and
- (c) both Streetcar and Zipcar would have continued to have access to finance in the foreseeable future, and were likely to have continued to compete within the London car club market, including growing their networks.

6. Assessment of the competitive effects of the merger

Theories of harm

6.1 The Guidelines explain theories of harm (TOH) as follows:³⁵

³⁴Zipcar told us that [redacted].

³⁵Paragraph 4.2.1.

Theories of harm are drawn up by the Authorities to provide the framework for assessing the effects of a merger and whether or not it could lead to an SLC. They describe possible changes arising from the merger, any impact on rivalry and expected harm to customers as compared with the situation likely to arise without the merger....

6.2 We identified three TOHs (which were set out in our issues statement³⁶ and our provisional findings):

- (a) TOH 1: loss of competition for members. Streetcar and Zipcar will 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). Any loss of competition between them might enable them profitably to raise prices, or to worsen other aspects of the retail offer, at least in the short term.
- (b) TOH 2: loss of competitive bidding for local authority on-street parking tenders. Some local authorities award on-street parking spaces to car clubs, in part, on the basis of the benefits to resident 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 resident car club members in that area.
- (c) TOH 3: raising barriers to entry. A merged Streetcar/Zipcar might 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 may 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 is a barrier to entry (see paragraphs 7.25 to 7.42).

6.3 In this section, we set out our analysis of each of these theories of harm.

Theory of harm 1: Loss of competition for members

6.4 We analysed whether, following the merger, Zipcar and Streetcar would no longer compete to provide car club services to members. Given the rate of growth in the market (see paragraph 2.4) and the evidence of low levels of member switching between Streetcar and Zipcar (see paragraph 6.12), we focused our analysis on whether Streetcar and Zipcar competed to attract new members from the same pool of potential car club members (rather than on whether they competed for existing car club members). We examined:

- (a) the way in which car club operators competed for members (which we termed 'the retail offer'). This could, for example, be on the basis of price, car availability and/or network coverage;
- (b) the nature of competition between Streetcar, Zipcar and other transport options available to members and potential members such as other car club operators, traditional car rental, car ownership, public transport and taxis;

³⁶www.competition-commission.org.uk/inquiries/ref2010/zipcar_streetcar/pdf/statement_of_issues.pdf.

- (c) whether there was scope for Zipcar or Streetcar to price (or otherwise) discriminate between member groups (for example, heavy users and light users, corporate and individual members), such that, following the merger, the parties could selectively worsen their services to a proportion of their members; and
- (d) whether the merger had resulted in a loss of potential competition in those local areas where only Streetcar operated prior to the merger, but where Zipcar could have launched its services.

The retail offer

- 6.5 We considered evidence from the main parties and third parties regarding the factors that mattered to consumers when deciding to join a car club. This evidence is set out in detail in Appendix G. In summary, Streetcar told us that [REDACTED].³⁷ Zipcar told us [REDACTED]. Third parties [REDACTED] identified proximity, availability and cost as important factors governing consumers' decisions to join a car club.
- 6.6 We also reviewed Streetcar and Zipcar's internal documents to understand which aspects of competition were important to Streetcar and Zipcar. This evidence is set out in detail in Appendix G. These documents indicated to us that Zipcar aimed to be the largest car club operator in the markets it entered, and that both Zipcar and Streetcar competed with each other and other car clubs for access to sufficient suitable parking spaces.
- 6.7 We considered the results from our survey regarding why respondents said that (a) they joined a car club rather than using an alternative transport option; and (b) they joined Streetcar or Zipcar rather than another car club. In relation to the former, 42 per cent of respondents said they joined a car club rather than using an alternative transport option mainly based on cost considerations, and 31 per cent said it was because it was easy to get to car club vehicles. In relation to the latter, 63 per cent said they joined Streetcar or Zipcar specifically due to vehicle proximity, 21 per cent said it was because it had a wider number of sites from which to collect vehicles and 14 per cent said it was because it was cheaper.
- 6.8 We concluded that a very important aspect of a customer's willingness to use car club services was whether the car network included cars located close to their point of departure. Other important factors included: availability of alternative vehicles (governed by the density of the network, ie the number of cars within 10 minutes' walk of a member's point of departure), price, ease of booking, and access to an owned car.

The nature of competition between Zipcar, Streetcar and other transport options

- 6.9 In this section, we examine whether Streetcar's and Zipcar's services were closer substitutes for each other than the other options available to customers such as other car club operators, traditional car rental, car ownership, public transport and taxis.

Main parties' views on the nature of competition

- 6.10 The main parties told us that customers made the following decisions in the car club market:

³⁷As set out in paragraph 4.15, the main parties and third parties told us that car club customers would be willing to walk for up to 10 minutes to access a car club vehicle.

- (a) a customer initially had to choose to join a car club service. Given that car clubs were a nascent market, the main parties argued that car clubs had to win customers away from another transport service that they were previously using;
 - (b) once customers made a decision to join a car club, they needed to decide for each journey they were planning to undertake whether the car club was the right mode of transport;
 - (c) at the end of a subscription period, customers had to make a decision whether to renew their membership. At this point, customers again considered other transport options as an alternative to car clubs; and
 - (d) other transport options would be attractive to members on different occasions because members made a variety of different journeys.
- 6.11 The main parties characterized other transport options as ex-post substitutes to car clubs (in that, after members have joined a car club, they may substitute between car clubs and other transport options for specific journeys) and ex-ante complements³⁸ (in that, when a consumer is making a decision whether to join a car club, the existence of easily accessible car rental, public transport etc will give the consumer the confidence to join a car club to meet part of their transportation requirements, rather than owning a car).
- 6.12 The main parties told us that the rivalry between car clubs did not drive competition in the marketplace and that car clubs were not particularly close competitors. They noted that exit surveys carried out by the main parties indicated that few members left one car club to join another. Their arguments on this point are set out in detail in Appendix G.
- 6.13 As well as the main parties' arguments, we took into account evidence from Streetcar and Zipcar's internal documents and from third parties (see Appendix G).

Our assessment of the nature of competition

- 6.14 In general, we saw evidence of competition between car clubs, and between the main parties in particular, before the merger. The internal documents of the main parties frequently identified each other, and other car clubs, as competitors. They identified suppliers of other transport options as competitors much less frequently. Our survey showed that, if either Streetcar or Zipcar were no longer in operation, 42 per cent of respondents would join another car club, and, for those 42 per cent, the choice was clearly between Streetcar and Zipcar (51 per cent of Streetcar members would join Zipcar, and 70 per cent of Zipcar members would join Streetcar).³⁹

³⁸Goods or services are economic complements if an increase in the price of one causes a decrease in the demand for the other.

³⁹The main parties argued that these percentages did not accurately represent the typical choices of Streetcar and Zipcar customers because, at the time of the survey, the main parties had already sent several emails to their members referring to the merger and therefore raising awareness of the other company. However, we noted that these percentages were consistent with the findings of our survey of non-members, which indicated that Streetcar and Zipcar were the two car clubs of which non-members had most often heard (43 per cent of non-members were aware of Streetcar and 16 per cent of non-members were aware of Zipcar).

- 6.15 We did not find the main parties' exit survey evidence to be particularly persuasive. In a rapidly growing market, switching between car clubs is likely to be a small proportion of overall changes in membership numbers.⁴⁰
- 6.16 We analysed car club operators' share of fleet in each London borough (see Appendix D). We noted that Streetcar and Zipcar both had large shares of the car club fleet only in Hammersmith and Fulham, Kensington and Chelsea, Westminster, Tower Hamlets and Southwark. This suggested that any loss of competition between Streetcar and Zipcar would be focused on those boroughs. We noted that, in all these boroughs, the main parties faced at least one other car club (albeit at a smaller scale than the main parties).
- 6.17 Given our conclusions on car clubs' retail offers (see paragraph 6.8), we considered that there were likely to be three main dimensions to any competition between Zipcar, Streetcar and the other transport options available to members and potential members:
- (a) price (relevant to competition between Zipcar, Streetcar and all other transport options);
 - (b) capacity of the car club network, ie the overall size and geographical coverage of the car club fleet (relevant to competition between Zipcar, Streetcar and other car clubs); and
 - (c) density of car club network, ie the number of vehicles in a given area (relevant to competition between Zipcar, Streetcar and other car clubs).
- *Price competition between car clubs*
- 6.18 The evidence suggested that car clubs in general, and Streetcar and Zipcar in particular, were an important source of price competition to each other before the merger took place. In particular:
- (a) Streetcar's internal documents contained comparisons of hourly rates with other car club providers, and cited competition with Zipcar as an important factor affecting its pricing freedom. This was particularly notable because Streetcar operated in a number of areas where Zipcar did not (see Appendix G), so that we would expect any pricing constraint on Streetcar to have been weaker than the constraint that Streetcar exerted on Zipcar, and weaker than the constraint we would have expected in the future as both firms increased the density of their networks in London.
 - (b) City Car Club listed a number of occasions when it had responded to price and service innovations by Streetcar or Zipcar with price cuts or expanded services (eg its decision to halve the pass-through of the congestion charge to members). It also listed occasions when changes in Streetcar's retail offer appeared to follow similar moves by Zipcar (eg Streetcar's decision not to pass on the congestion charge) and when changes in Zipcar's retail offer aligned Zipcar's offer more closely with that of Streetcar, albeit not in relation to pricing (eg the introduction of Volkswagen vehicles in Zipcar's fleet).
- 6.19 The main parties disagreed with our analysis. They told us that:

⁴⁰There were also other reasons that we did not attach much weight to this evidence. For example, we noted that a large number of customers in the exit survey referred to by the main parties left the car club because of lifestyle changes (eg they moved out of the city or the country), which would indicate that use of any car club would no longer be appropriate.

- (a) the reason that comparisons with other car clubs featured so frequently in their internal documents was because it was easier to compare car club prices with other car clubs rather than other transport alternatives, as pricing of alternative options did not change much and because Board members were fully aware of the constraint on their decisions from other transport modes without having to be reminded. Further, in the case of Streetcar, internal documents citing [redacted] were in part a response to [redacted];
- (b) Streetcar decided to absorb the congestion charge for several reasons, not just because Zipcar absorbed the charge. The other reasons were to improve service quality and to stimulate weekday, ie business demand (to balance it with weekend demand);
- (c) Zipcar decided to introduce Volkswagen Golfs into its fleet in April 2009 because Zipcar felt it was important to offer a price point to customers between its basic and sportier models. The Golf was introduced to fill that gap. The choice was informed by the fact that the Volkswagen is comparable to Zipcar's most widely used class of vehicles in the USA;
- (d) Streetcar had not considered targeting changes in its pricing at boroughs where it did not overlap with Zipcar, which it could have done if Zipcar were a binding constraint on Streetcar in overlap areas; and
- (e) although there were no examples of local authorities preventing, delaying or reducing proposed price increases by car clubs, price changes were infrequent, and local authorities could easily terminate their contracts if they were unhappy.

6.20 We were not persuaded by these arguments. We considered that it remained correct to place weight on evidence from Streetcar's and Zipcar's internal documents. We believed that they gave us insight into the strategic thinking of each company at the time they were written, and how their management prioritized issues. In our view, the fact that it is easier to make pricing comparisons between car clubs than between car clubs and other transport options is one of the reasons that makes a Streetcar-Zipcar binding constraint on pricing more likely than a binding constraint from other transport options. The internal discussion around Streetcar's decision to absorb the congestion charge strongly suggests that the most important reason for this was to respond to Zipcar absorbing the charge (and, even if this were not the primary reason, competition with Zipcar remains a factor mentioned in Streetcar's internal documentation about the decision). We noted that, to date, Streetcar and Zipcar had set their respective prices on a company-wide basis for the business reasons they explained to us, despite there being some incentives for them to price locally (see paragraphs 4.17 and 4.18). Lack of local pricing by Streetcar in the boroughs in which it overlapped with Zipcar was therefore in our view weak evidence that Zipcar was not a binding constraint on Streetcar. We noted that it remained the case that there was no evidence that local authorities constrained car club price increases through their contracts with car club operators for on-street parking.

6.21 There was evidence to suggest that price increases were likely following the merger:

- (a) The results of our analysis of diversion ratios and margins (see Appendix H) were consistent with at least a moderate incentive for Zipcar to raise prices post merger. Before the merger, if Zipcar increased its prices, a significant proportion of the members it lost would have joined Streetcar instead, thereby increasing Streetcar's revenues. Following the merger, if the merged firm increases its prices, it will retain the revenues from those members who would otherwise have

joined Streetcar, had Streetcar remained independent. This will make the merged firm less cautious about raising prices.

(b) The main parties told us that they intended to [redacted] and [redacted] following the merger. Coupled with the increased incentives to raise prices and the fact that Zipcar currently offers prices that are 20 per cent lower than Streetcar's in terms of membership fees and more than 20 per cent lower than Streetcar's on weekday rentals⁴¹ (see Appendix H), absent entry, this is likely to result in an increase of one or more of Zipcar's prices. While we were not able to predict what exactly was going to happen to pricing post-merger, we found that, absent entry or the threat of entry, it was more likely than not that Zipcar would raise its prices at least by a SSNIP (see Appendix H).

- *Framework for assessing price competition from other transport options*

- 6.22 Our survey indicated that the most likely alternatives to joining a car club were car rental (chosen by 42 per cent of respondents) and buying a car (18 per cent of respondents). However, a car club was chosen rather than these alternatives because it was cheaper (43 per cent of respondents) and easier to get to⁴² (31 per cent of respondents). If Streetcar/Zipcar were no longer in operation, while 42 per cent of respondents would join another car club, 35 per cent said they would use car hire, 32 per cent public transport and 23 per cent taxis. Among price sensitive members (who would leave their car club if journey prices rose by 10 per cent), only 22 per cent would join another car club while the remainder would use alternative transport options.
- 6.23 To help us assess the extent to which other transport options such as car rental, taxis and public transport constrained car clubs, we considered different car club hire periods (ie the length of time for which a car club vehicle is used) separately. This was because it seemed likely that, as the main parties argued, a variety of different transport options could be constraints on the different types and durations of journey made using car club vehicles.
- 6.24 We defined short hire periods as being those of up to 8 hours duration for Zipcar and up to 10 hours duration for Streetcar. This is because, for longer hire periods up to 24 hours, the daily rental rate would apply in each case. We defined long hire periods as being those of daily and longer duration.
- 6.25 We found that around [redacted] per cent ([redacted] per cent for Streetcar and [redacted] per cent for Zipcar) of all hire periods are charged at the day rate. We also found that [redacted] of short hire periods do not take longer than 5 to 6 hours and that only [redacted] are 8 to 10 hours long. There are therefore two largely separate short and long hire period segments, reflecting different customer journey requirements, with few hire periods falling between these two groupings. Long hire periods are therefore sufficiently different in duration and price that they are unlikely to constrain the pricing of most short hire periods (and vice versa), ie it is correct to consider constraints on short and long hire periods separately in what follows.

⁴¹The main parties noted that there was an exception to this in that, for Monday to Friday rental, Streetcar charged £195 for a Golf for five days, whereas Zipcar's price was £45 per day.

⁴²We note that the 'easier to get to' option would not be relevant in the context of a comparison between car clubs and car ownership.

- *Price competition from car rental*

- 6.26 The main parties told us that car rental was a particularly close substitute for car clubs. They submitted that:
- (a) car rental was a substitute for long journeys (daily and greater) and for short journeys. In the case of short journeys, some car rentals were available for bookings shorter than 24 hours (for example, Hertz's '3-6-9' product offering a rental service for 3, 6 or 9 hours);
 - (b) car club bookings of 8 hours or more (for Zipcar) and 10 hours or more (for Streetcar) were charged on a daily rate. For Streetcar, the main parties told us that such bookings represented only [%] per cent of all bookings but accounted for [%] per cent of Streetcar's revenues (and [%] per cent of Zipcar's revenues). It was therefore critical for Streetcar to maintain the competitiveness of the longer bookings against car rental otherwise its profitability would be disproportionately hit; and
 - (c) Zipcar's 2010 survey of [%] members suggested that [%] per cent of members carried out a price check with car rental when planning their journey with Zipcar.
- 6.27 We first considered whether car rental would constrain long car club hire periods, ie those hire periods for which a car club user would pay at least the daily car club rental rate (hire periods longer than 8 hours in the case of Zipcar and longer than 10 hours in the case of Streetcar).
- 6.28 Zipcar and Streetcar provided evidence of their monitoring of car rental companies and we saw comparisons between car club daily rental rates and car rental prices in Zipcar and Streetcar internal documents (see Appendix G). The main parties also noted that their websites made direct comparisons between their services and other transport options, and that most car club members in London could easily access car rental depots.⁴³
- 6.29 We noted that car rental offered a similar service to long car club hire periods. There are, however, some differences such as the fact that car rental offers availability from a smaller number of depots than the on- and off-street availability of car club vehicles and car rental does not require any membership fees. We noted that 42 per cent of car club members we surveyed considered car rental to be their most likely alternative to joining a car club.
- 6.30 We compared car clubs' daily rates with the limited data we had available to us on car rental rates (see Appendix H). Whether these rates were comparable depended very much on the assumptions we made. When we compared headline rates (ie advertised rates without factoring in the petrol credit and other similar benefits) on the basis of a small economy car, car rental was more expensive than car clubs. This difference was even more pronounced when we factored in car clubs' additional benefits such as petrol credit. However, given that most members make [%], this indicated that we should factor in the membership fee in calculating the per-journey cost. When we did so, we found that the gap between the cost of car rental and car clubs narrowed. We concluded that car club daily rates were to an extent constrained by car rental daily rates.

⁴³The main parties stated that their analysis showed that, for [%] per cent of Streetcar members, the nearest car rental depot was within half a mile of their home, and for [%] per cent of Streetcar members, the nearest car rental depot was within a mile of their home.

- 6.31 We next considered whether car rental constrained short car club hire periods (ie those lasting less than 8 hours in the case of Zipcar and 10 hours in the case of Streetcar). We did not find that this was the case for the following reasons:
- (a) Although we noted developments in car rental services such as car rental periods of less than 24 hours, keyless access and door-to-door vehicle delivery services, to avoid additional costs customers typically still need to pick up vehicles from depots within opening hours (and return them to the depot at the end of the hire period). Evidence from car rental companies indicated that the take-up of such services was limited.⁴⁴ These services therefore appear not to replicate the convenience and accessibility of car clubs.
 - (b) We considered whether car rental might indirectly constrain short car club hire periods via the constraint car rental places on long car club hire periods. This could be the case if long car club hire periods placed some constraint on short car club hire periods. However, we found that car club daily rates did not constrain hourly rates. This is mainly because customers hiring car club vehicles for short periods (under 8 hours for Zipcar and under 10 hours for Streetcar) would not find it advantageous to pay for an entire day's worth of car club rental following a small increase in the car club hourly rates (such as envisaged in the SSNIP test—see paragraph 4.12).
- 6.32 Our survey revealed that members using car club vehicles for long hire periods are around three times more likely (3.5 for Zipcar and 2.5 for Streetcar) to consider car rental to be a good substitute for car clubs than members using car club vehicles for short hire periods. This is consistent with our finding that car rental is more likely to provide a constraint for long hire periods than for short hire periods.⁴⁵
- *Price competition from taxis and public transport*
- 6.33 The main parties told us that taxis were a strong constraint on car clubs and provided a worked example demonstrating that, although the hourly costs of taxis were considerably higher than those of car clubs, when the opportunity cost of time is taken into account, taxis became a competitive alternative because (i) consumers incur a time cost when arranging a booking of a car through a car club; and (ii) consumers using car clubs also incur a rental cost while they are at their destination, ie they could avoid incurring such cost if they took a taxi for both the outward and inward journeys. The main parties' worked example showed that the Underground offered a lower journey cost than car clubs once the cost of the time the car was idle during a hire period was taken into account.
- 6.34 Zipcar told us that, while the exact scope of the public transport system and its convenience varied from borough to borough and journey to journey, a range of valid public transport and taxi alternatives existed in all boroughs in which Zipcar operated. Zipcar further told us that it looked for areas with good provision of public transport

⁴⁴Hertz told us that its 3-6-9 service was launched in response to [redacted] (a traditional rental competitor) hourly offering, rather than in response to car clubs. It told us that [redacted] and provided data that showed that the number of bookings in London was very small compared with the number of car club bookings in London. Hertz said that it was convenient only in off-airport locations, ie for those within 10 minutes of a Hertz depot (of which there were only three in inner London). According to Hertz, it was primarily aimed at air travellers. [redacted], a leading vehicle rental company, said that it would need to extend its existing hourly offering and seek urban parking facilities if it were to compete with car clubs.

⁴⁵We noted that car club members wishing to hire car club vehicles for periods approaching the threshold at which the daily rental rate would apply (ie 8 hours in the case of Zipcar and 10 hours in the case of Streetcar) might decide to pay the daily rental charge to give themselves the option of keeping the vehicle for longer than they might originally have planned for a relatively small extra payment. This would imply that the constraint from car rental might apply to the pricing of some journeys below the 8/10 hour threshold.

when selecting new locations for its vehicles. People living in these areas were more likely to dispense with cars as they had other options to meet their travel needs.

- 6.35 Streetcar told us that it specially promoted its £20 overnight rate to members at the time of industrial action on the Underground (when members might otherwise have had to use alternative public transport options or taxis to get home and back to work the following morning). Streetcar provided a graph showing [X].
- 6.36 We found some limited mention of taxis and public transport (compared with the more frequent mentions of other car clubs and car rental) as competitive constraints on the main parties in their internal documents. We also noted our survey findings on the views of car club members on the substitutability of other transport options (see paragraph 6.22).
- 6.37 Our survey showed that a significantly larger proportion of members using car club vehicles for short hire periods considered taxis to be a good substitute for car clubs than members making bookings for long hire periods.⁴⁶ Customers making bookings for short hire periods are also about 50 per cent more likely to join another car club than customers making bookings for long hire periods. This suggests that there are fewer substitutes for car clubs for short hire periods than for long hire periods.
- 6.38 We noted that the main parties found making pricing comparisons with other transport options difficult (in that the main parties said this was one of the reasons why such comparisons were not regularly made or presented to Streetcar or Zipcar management). We attempted to compare car club pricing with taxis and the London Underground (see Appendix H). These comparisons proved complicated given that journeys using taxis and the Underground can be one-way, unlike car club hire which normally requires the vehicle to be returned to its original location.⁴⁷ We found that taxis were likely to be substitutes for journeys lasting less than 30 minutes, for which a full hour's car club charge would still have to be paid. However, the cost of taxi travel quickly escalated after 30 minutes and eroded the price advantage for taxis associated with not incurring any costs while at the destination. This means that taxi travel is unlikely to provide a constraint on the car club journeys taking longer than 30 minutes.⁴⁸ Conversely, the longer the time spent at the destination the more competitive the Underground became. However, given the widely different characteristics of a car club service and an Underground journey in terms of convenience, this constraint is likely to be small.⁴⁹

- *Price competition from car ownership*

- 6.39 The main parties told us that car ownership was a key factor in a consumers' decision whether to join a car club. This was for the following reasons:

⁴⁶For Zipcar members, 14 per cent of members using vehicles for short hire periods considered taxis a good substitute as against 1 per cent of members using vehicles for long hire periods. The equivalent figures for Streetcar were 13 per cent and 7 per cent (see Appendix H).

⁴⁷We accepted the main parties' argument that outward and return journeys might be made using different transport modes to avoid waiting time. For example, a customer on a shopping trip may use public transport to arrive and a taxi to depart. We considered it likely that such 'multi-mode' considerations might increase to a few hours the duration of car club journeys for which taxis and public transport together could provide a pricing constraint.

⁴⁸We note that, given that car clubs have a minimum rental period of one hour, we had to use an hour's car club rental charge as a comparator for all taxi journeys under an hour. In practice that means that some of the bookings that currently appear as 1-hour hire periods in the main parties' database would have been constrained by taxis, in particular if the purpose of the journey was completed within 30 minutes.

⁴⁹Our analysis focused on the Underground but we considered that the same broad conclusions would apply to buses in London, as we used an Oyster card journey as a comparator which is very similar to the costs of using a bus in London.

- (a) In general, 30 per cent of car club members owned at least one car prior to joining a car club, 25 per cent of members sold a car and 31 per cent of members would have bought a car, had they not joined a car club.⁵⁰ In addition, in the case of Streetcar, it told us that 26 per cent of its members left because they had acquired a car.
- (b) The main parties market their services as a cheaper alternative to car ownership. Zipcar advertises this on its website and Streetcar uses a 'Car Owner Calculator' on its website to compare the costs of a being a member of a car club with car ownership.
- (c) According to the main parties, there were a significant number of car owners who did not drive frequently who could be considered marginal customers and for whom car club/car ownership costs were broadly comparable.
- 6.40 When discussing its work in searching for suitable locations for its vehicles, Streetcar stated that areas of low car ownership indicated well-developed public transport, which in turn was important for the success of a car club business.
- 6.41 We found very limited mention of car ownership as a competitive constraint on the main parties in their internal documents. Further we noted that the Transport for London (TfL) survey suggested that most people joining a car club were not regular car users before joining and further reduced their car use after they joined a car club.
- 6.42 We noted our survey evidence which indicated that buying a new car was the second most popular alternative to joining a car club at the time of joining. 18 per cent of respondents said they would have bought a new car while 42 per cent of respondents said they would have used car rental. However, we noted that it was obviously not possible to substitute car ownership for a car club hire on a journey-by-journey basis, which would make any constraint from car ownership on car clubs likely to be less binding than the constraints we found from other transport alternatives such as car rental and taxis.⁵¹
- *Capacity competition*
- 6.43 Network capacity appeared to be an important aspect of competition between car clubs for the following reasons:
- (a) customer preferences for having cars located near their point of departure,⁵² together with the fact that agreements for access to suitable parking spaces often involve contracts with local authorities lasting a number of years, provide conditions conducive to competition between car clubs to secure access to parking;
- (b) board papers from Streetcar cited expanding its car network faster as a competitive response to Zipcar's entry;
- (c) our analysis of Streetcar's behaviour following Zipcar's entry (see Appendix H) indicated that there was a spike in Streetcar's marketing spend following Zipcar's entry, and Streetcar spend per new customer also spiked, showing that Streetcar

⁵⁰Carplus annual survey of car clubs 2009/10.

⁵¹The average cost of a car club to members is around £285 a year. Purchasing and servicing even a cheap second hand car, and paying for petrol, insurance and other charges, is likely to be considerably more expensive than this.

⁵²63 per cent of our survey respondents said they joined Streetcar or Zipcar specifically due to vehicle proximity; 21 per cent said it was because it had a wider number of sites from which to collect vehicles; and 14 per cent said it was because it was cheaper.

was having to work harder for each new member. Whilst we noted that Zipcar's entry broadly coincided with Smedvig's initial investment in Streetcar (which provided further funds for Streetcar expansion), we also noted that Streetcar started to expand its car fleet more rapidly following Zipcar's entry such that the number of cars per 100 members in overlap areas grew (while remaining unchanged in non-overlap areas);⁵³ and

(d) third parties stressed the importance of competition on the basis of networks of parking spaces.

- 6.44 The main parties told us that Streetcar added vehicles following Zipcar's entry because its membership increased and because it had funds to do so following Smedvig's investment in Streetcar. Further, they submitted that there could be no race to expand car club networks because there was no limit on the number of off-street parking spaces available.
- 6.45 We were not persuaded by either of these arguments. Our analysis showed that Streetcar targeted its fleet expansion following Zipcar's entry such that the number of cars per 100 members in overlap areas grew (while remaining unchanged in non-overlap areas), which strongly suggests that this was a response to Zipcar entry, rather than just a result of additional funding being available. In addition, even if off-street parking is unlimited, cheaper on-street parking is allocated in finite batches by local authorities (see [Section 7](#)), spurring competition between car clubs to obtain on-street spaces and to establish larger networks more generally using both on-street and off-street spaces.
- 6.46 We noted, however, that there was an asymmetry in the extent to which the networks of Streetcar and Zipcar overlap, which suggested that Streetcar was more of a constraint on Zipcar before the merger than Zipcar was on Streetcar. [§] Zipcar cars are in a borough where Streetcar has at least 20 per cent of the total car club fleet. On the other hand, only [§] per cent of Streetcar cars are in boroughs where Zipcar has at least 20 per cent of the total car club fleet (see Appendix H).
- 6.47 In terms of the impact of the merger on network capacity, we asked the main parties about their plans for fleet size following the merger. The main parties told us that, following the merger, there would be careful fleet utilization management. No decisions had been taken yet regarding fleet reduction, and any such decisions would have to be balanced with customer satisfaction. Zipcar told us it tracked vehicle availability scores daily along with 'net promoter scores' (an indicator of customer satisfaction from an email survey of members immediately after they made a journey) and took steps to balance these carefully.
- *Density competition*
- 6.48 As set out in paragraph 6.8, the density of a car club's network is an important feature of a car club's service to members. Density governs the availability of alternative vehicles within convenient walking distance, if a member's first choice of vehicle is already booked, ie it is local density that is important to members, rather than density across the car club's network as a whole.
- 6.49 Several car club operators told us that car clubs competed with each other both to locate their cars closest to members and to provide alternative vehicles within easy reach of members if their closest vehicle was not available (which ensured that

⁵³The main parties told us that [§] and was not a reaction to Zipcar's entry.

members experienced good levels of car availability (see Appendix J)). Evidence from our survey also indicated that both proximity of a car and density of network were important considerations for members, albeit not the only considerations.⁵⁴

- 6.50 To understand the relative density of the different car club networks in London, we analysed their parking space locations in a geographic information system (GIS) to determine how close, on average, their networks were to each other (see Appendix H). We found that, in terms of proximity of parking spaces:
- (a) of the 14 boroughs where Streetcar and Zipcar both operate, there are seven where Zipcar's parking spaces are closer, on average, to those of Streetcar than to those of City Car Club or Connect; and
 - (b) Streetcar is Zipcar's closest competitor (in terms of proximity) in 13 out of the 14 boroughs. That is to say, Streetcar's parking spaces have the shortest average distance to Zipcar's parking spaces in almost all London boroughs where both operators are active.

Conclusions: nature of competition between Streetcar, Zipcar and other transport options

- 6.51 The balance of evidence suggests that Streetcar and Zipcar competed for members before the merger on the basis of price, capacity and density of network. Evidence that supports this view includes:
- (a) Streetcar and Zipcar internal documents;
 - (b) almost all third party views;
 - (c) our analysis of Streetcar's behaviour following Zipcar entry, proximity of car club parking spaces, price comparisons between car clubs, comparisons between car club prices and the prices of other transport options and car club shares of fleet in different London boroughs (see Appendix H); and
 - (d) responses to our survey and our analysis of diversion ratios.
- 6.52 On the basis of the evidence and reasoning set out in paragraphs 6.18 to 6.20, we concluded that Streetcar and Zipcar were an important source of pricing competition to each other before the merger. However, we also concluded that:
- (a) for the reasons set out in paragraphs 6.26 to 6.32, car rental would constrain the pricing of long (daily and over) car club hire periods;
 - (b) for the reasons set out in paragraphs 6.33 to 6.38, there was some pricing constraint from taxis and public transport for hires lasting a few hours or less; and
 - (c) for the reasons set out in paragraphs 6.39 to 6.42, there was very limited pricing constraint from car ownership on car club charges. We noted the main parties' submission (see paragraph 4.4) that customers must initially decide to join a car club, which might entail a decision to sell, or not buy, a car. We concluded that

⁵⁴31 per cent of our survey respondents said that they chose to join a car club rather than use another mode of transport because it was easy to get to a car club vehicle. 38 per cent of respondents said that they chose Streetcar or Zipcar rather than another car club because it had more cars available close to their home/office compared with other car clubs; 25 per cent because they saw a car close to their home/office; and 21 per cent because it had a wider number of sites from which to collect cars.

car ownership may impose a light constraint on membership and usage fees only to the extent that comparisons of the cost of using a car club against the cost of car ownership should look favourable for at least the lower end of the likely annual mileage distribution. Finally, the decision to join a car club rather than owning a vehicle is a major decision to avoid the significant expenditure associated with owning a car, rather than a decision made in response to small changes in the pricing of car club membership or usage fees (as envisaged in the SSNIP framework—see paragraph 4.12).

- 6.53 We expected that prices would increase following the merger, at least for Zipcar customers and possibly to a smaller extent for Streetcar customers, for the reasons set out in paragraph 6.21.⁵⁵ As a result of our analysis of pricing constraints from different transport options, we expected that price increases would be focused on the charges for hire periods greater than a few hours, but less than 8 hours (in the case of Zipcar) and 10 hours (in the case of Streetcar).⁵⁶ As set out in Appendix H, about half of Zipcar bookings and about half of Streetcar bookings are greater than [X] hours but less than 8 hours (in the case of Zipcar) and 10 hours (in the case of Streetcar).
- 6.54 In their response to our provisional findings, the main parties told us that it was highly unlikely that they could introduce a new hourly rate for hire periods of ‘intermediate’ length (ie for hire periods greater than a few hours but less than 8 or 10 hours) that was higher than the rate for short hire periods but lower in aggregate than the cost of a daily booking. They told us that this was because:
- (a) pricing needed to be simple and stable to attract customers away from other transport options, and for ease of marketing;
 - (b) historically, car clubs had had cheaper rates for journeys of longer duration, which incentivized customers to purchase more rather than less of the service, thereby enhancing revenues. Customers would react badly to paying more for longer trips, and might not make trips at all, or would switch to making shorter trips (both of which would reduce car club revenue);
 - (c) IT systems would have to be updated to prevent customers booking multiple short trips to take advantage of cheaper hourly prices. This could be done, but customers would view it negatively; and
 - (d) daily rental would become more attractive in relation to longer intermediate trips, causing customers to book cars for daily instead of hourly periods. This would reduce vehicle availability for other customers, increase the use of the free fuel allowance and lead to more customers switching away to car rental.
- 6.55 The main parties also noted that Zipcar had never had a different price structure for intermediate length bookings in any of the areas where it was active. The main parties stated that, as a result of all these issues, any increase in pricing for intermediate trips would have to be extended to shorter trips, which would result in a significant decrease in revenues.
- 6.56 However, our analysis (as set out in paragraphs 6.22 to 6.42) showed that there was scope for price increases for hire periods of intermediate length following the merger due to the loss of pre-merger price competition between Zipcar and Streetcar and the

⁵⁵We noted that the merger took place in April 2010. We considered it likely that these expected price rises had not occurred to date because of the existence of this inquiry.

⁵⁶These are the hire periods above which the daily hire charge is payable in each case.

lack of cost-effective alternative transport options for journeys of this length. We were not persuaded that such price increases would adversely affect pricing simplicity to the extent that a merged Zipcar/Streetcar would be deterred from making them, as they would simply involve adding another hourly rate into the car club charging structure. In any event, such price increases could also be achieved through the use of vouchers and discounts, thereby mitigating adverse consumer reactions and maintaining the existing price structure. The fact that Zipcar had not (to date) implemented this pricing structure in other geographic markets where it was active was not persuasive for our assessment of the effect of the merger on competition in London, as we were not concerned with or aware of competitive conditions in those markets. As regards customers switching to daily rental in response to price increases for intermediate length hire periods, our analysis of the distribution of hire period durations (as set out in paragraph 6.25) showed that there were few hire periods (where the vehicle was booked on an hourly basis) where switching to a daily hire would be advantageous.

- 6.57 For the reasons set out in the previous paragraph, our conclusions on this point remained unchanged, namely that we expected price increases following the merger, focused on the charges for hire periods greater than a few hours, but less than 8 hours (in the case of Zipcar) and 10 hours (in the case of Streetcar).
- 6.58 As set out in paragraphs 6.43 to 6.47, there is some evidence that Streetcar and Zipcar were competing on the basis of network capacity before the merger. However, this competition was asymmetric, since Zipcar faced considerable competition in terms of fleet size from Streetcar everywhere Zipcar had operations, whereas Streetcar did not face similar levels of fleet size competition from Zipcar. Further, as set out in paragraph 6.16, there were only four London boroughs where both Streetcar and Zipcar had substantial shares of the car club fleet before the merger. Taken together, these factors suggested that the loss of network capacity competition between Streetcar and Zipcar was not likely to be significant.
- 6.59 On the basis of the evidence and reasoning set out in paragraphs 6.48 to 6.50, we concluded that Streetcar and Zipcar competed on the basis of network density. However, this competition occurs on a local basis. The effect of the loss of this network density competition is discussed further in [Section 7](#).

Scope for discrimination

- 6.60 We reviewed evidence from the main parties and third parties regarding how pricing and demand for car club services varied between different groups of members.⁵⁷ This evidence is set out in detail in Appendix G.
- 6.61 We found that car club operators segmented their members in a variety of ways (for example, according to whether they made long or short bookings, were frequent or infrequent users, were corporate or individual customers). Car club operators were able to (and did) discriminate between different hire periods and customers by using different baseline prices. There is a different membership fee structure for corporate and individual members, and there is a per-hour charge; a daily rate; and differences between weekday and weekend use.
- 6.62 As set out in paragraph 6.52, we found that the main parties faced different types of constraints on different lengths of hire period (for example, some constraint from car

⁵⁷We considered the ability to discriminate between customers on the basis of their location as part of our assessment of geographic market definition—see paragraphs 4.14–4.20.

rental on long hire periods and some constraint from taxis and public transport on short hire periods). As discussed in paragraph 6.53, we expected that, as a result of the merger, there would be price increases focused on those hire periods not subject to these constraints, ie hire periods of greater than a few hours but less than 8 hours (in the case of Zipcar) and 10 hours (in the case of Streetcar).

Potential competition

- 6.63 We investigated the main parties' plans to expand their car club networks, to understand whether there had been any loss of potential competition, in particular (i) the elimination of pre-emptive competition in areas where neither main party operated before the merger; (ii) the elimination of potential competition in areas where Streetcar operated before the merger but Zipcar did not; and/or (iii) the elimination of competition based on the increase in the density of Zipcar's and Streetcar's existing car club networks.
- 6.64 Zipcar's internal documents show that in early 2007, [REDACTED].
- 6.65 We asked local authorities in all the areas where Streetcar had operations whether they had been approached by any other car clubs regarding launching their services in those areas. Cambridge City Council told us that Cambridge County Council had had some contact with Zipcar regarding Zipcar launching operations in Cambridge, although Zipcar could not recall these discussions. Zipcar told us that it had had informal discussions with Birmingham City Council in 2009, although the council did not embark on a tender process and Zipcar did not apply for any spaces.
- 6.66 We note our conclusion on the counterfactual (see paragraph 5.20), that Streetcar and Zipcar would continue to have access to finance and that they were likely to have continued to compete within the London car club market, including growing their networks. In this context:
- (a) Streetcar told us that, had the merger not taken place, Streetcar's focus [REDACTED]. It would have targeted any network expansion at pockets of potential customers with demographics favourable to car clubs (both within London and outside London) using both on-street and off-street parking.
 - (b) As set out in paragraph 5.17, Zipcar told us that, had the merger not taken place, Zipcar would [REDACTED], provided an [REDACTED]. It would have [REDACTED]. During 2010, it had planned before the merger to make about [REDACTED] new vehicles available (in addition to its existing fleet of approximately [REDACTED] vehicles).
 - (c) Zipcar's board papers from mid-2009 suggested that Zipcar should focus its business on the following zones: [REDACTED].
- 6.67 On the basis of the evidence available, we concluded that, in the absence of the merger, Zipcar would not [REDACTED]. Further, given that Streetcar's retail offer in the non-overlap boroughs and cities was not constrained by potential entry by Zipcar (see paragraphs 6.64 and 6.65) we concluded that the only loss of potential competition was from any increased Streetcar and Zipcar network density in the overlap boroughs.

Conclusions on loss of competition for members

- 6.68 We concluded that the main factors on which car clubs competed were proximity of vehicles to customers, availability of alternative vehicles (governed by the density of the network), price and ease of booking.
- 6.69 We found that Streetcar and Zipcar competed on prices before the merger (see paragraphs 6.18 to 6.21). We expected that constraints from the remaining car clubs and other transport options would be insufficient to prevent the merged firm increasing one or more of its prices (ie one of more of its various charges for membership, different hire durations, model of car etc), particularly those for hire periods greater than a few hours but less than 8 hours (in the case of Zipcar) and 10 hours (in the case of Streetcar). About half of all Zipcar hire periods are of between [redacted] and 8 hours duration, and about half of all Streetcar hire periods are of between [redacted] and 10 hours duration.⁵⁸
- 6.70 We concluded that Streetcar and Zipcar also competed on the basis of network capacity (see paragraph 6.58) and network density (see paragraph 6.59). We found that the loss of network capacity competition was not likely to be significant. The effect of the loss of network density competition (and the loss of potential competition from increased Streetcar and Zipcar density in the overlap boroughs) would be primarily localized, and is discussed further in [Section 7](#).

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

- 6.71 We investigated whether the merger might lead to less competition for local authority tenders for the allocation of on-street parking for car clubs, which would worsen the terms and conditions that London boroughs were able to obtain for residents seeking to join car clubs (eg membership charges) and the benefits that a borough itself might obtain from the tendering process (eg meeting environmental targets or payments for parking spaces).
- 6.72 We examined evidence from the main parties, London boroughs and other third parties regarding the processes by which on-street parking is allocated to car clubs (see Appendix I).
- 6.73 We found that London boroughs operated either a single-operator policy or a multi-operator policy (see paragraph 7.36). Many London boroughs allocated their on-street parking spaces on the basis of a competitive tender, while many more used other less formal procedures to select the best car club (or car clubs in the case of a multi-operator policy) and obtain the best conditions from the car clubs applying to acquire these parking spaces. The criteria used to assess these bids (and the unique competitive tendering process employed by Westminster Council to decide which car club operator would run the Westminster-branded car club) are set out in Appendix I and include quality of service, proposed marketing spend, charges to be made to members, reputation and ability to provide references.
- 6.74 Evidence from the main parties' internal documents (see Appendix G) and local authorities' bidding processes indicated that Streetcar and Zipcar competed for on-street parking allocations prior to the merger. Third parties confirmed that this was their understanding. For example, there was close competition between Zipcar and

⁵⁸The main parties told us that the proportion of revenue accounted for by such hire periods was [redacted]. We found that the merger would remove a competitive constraint on hire periods of greater than a few hours and less than 8 or 10 hours and that the proportion of revenue affected was material.

Streetcar in the Westminster Council tender process in 2008, which was the only single-operator tender which Zipcar won (all the others have been won by Streetcar).⁵⁹

- 6.75 However, we noted that only a small minority of the 32 London boroughs that responded to our questionnaire raised concerns about the merger, and most of those also saw some benefits of the merger or thought that the concerns would not apply to their own borough (see Appendix I for detailed responses). Only a small number of boroughs (Bromley, Croydon, Sutton, Harrow) raised a concern which could be interpreted as a concern regarding a reduced number of bidders.
- 6.76 We accepted the main parties' argument that the Westminster bid was atypical in terms of London borough bid processes to date, in that Westminster wanted a car club to operate under the Westminster Car Club brand, and it was the only London borough to date in which the amount that a car club operator was willing to pay for the parking spaces was an element in the tender evaluation. Other London boroughs are allocating on-street parking via processes in which the price per bay is fixed in advance. However, even in these processes, we found there were opportunities for boroughs to win some concessions from bidders. Boroughs with single-operator policies would also be able to win concessions when their on-street parking contracts came up for renewal, as there is evidence that they can switch operators if they wish while taking steps to minimize disruption to existing members of the incumbent operator.⁶⁰
- 6.77 On the other hand, we found that car clubs are only a small component of overall demand for on-street parking, and local authorities can decide how many spaces to allocate for car clubs. Further, both on-street parking and off-street parking are potentially suitable for car club operations (see paragraph 7.42). On-street parking was typically cheaper than off-street parking (see paragraph 7.32), although off-street parking offered other advantages over on-street parking (see paragraph 7.27). For example, the main parties told us that one of the disadvantages of on-street parking was the need to place vehicles in the spaces shortly after allocation, even if membership levels in the area were small. In addition, six outer London boroughs only ever had one car club interested in their on-street parking spaces, suggesting that the merger would not result in a loss of competition in such cases.
- 6.78 We considered that the factors set out in the previous paragraph, taken together with the lack of concern expressed by the London boroughs about the loss of a potential bidder for on-street parking, meant that this theory of harm was not supported by the evidence.

Theory of harm 3: Increased barriers to entry

- 6.79 We investigated whether a merged Streetcar/Zipcar would be able to obtain a larger share of available on-street parking than would have been allocated in total to the Streetcar and Zipcar absent the merger. If so, the remaining competitors and

⁵⁹The main parties noted that [redacted]. The main parties therefore argued that Streetcar could not be considered the main source of competitive tension in that process. However, given that Streetcar and Zipcar each had about half the total car club vehicle fleet in Westminster prior to the tender (using off-street parking as Westminster had not previously allocated any on-street parking to car clubs), that Streetcar had won every other single-operator tender in London and that the outcome of the bid process could not be known in advance, we considered it likely that Zipcar perceived Streetcar to be its main rival for the tender.

⁶⁰Islington, a single-operator borough, switched from City Car Club to Streetcar. Streetcar offered a 50 per cent reduction in membership fee for members who transferred from City Car Club.

potential new entrants could find it harder to expand or enter following the merger, if access to on-street parking is a barrier to entry.⁶¹

Third party views

- 6.80 Hertz told us that local authorities were very unlikely to award tenders for on-street parking to operators which did not have a large existing base of members in the relevant local authority area. According to Hertz, without occupying on-street spaces, it was difficult for a competitor to develop a membership base of local residents and in turn win tenders. Hertz argued that this was because on-street car parking provided a car club with key competitive advantages in the form of (a) better access to residents, as on-street spaces were embedded in residential areas, and (b) lower costs, as on-street spaces were cheaper to occupy than private off-street parking.
- 6.81 Hertz told us that the merger of Streetcar and Zipcar would tip the market in favour of the merged firm because it would have a dominant network of both members and car club spaces. It would control an enlarged network significantly greater than the individual networks held by Streetcar and Zipcar separately and this would reduce the likelihood that other car club operators would be successful in tendering for on-street spaces from local authorities in future.
- 6.82 Hertz also argued that when local authority on-street parking contracts came up for renewal, the merged firm would have an advantage over its competitors by virtue of its larger network and by being an incumbent operator in single-operator boroughs which in itself would improve its competitive position with local authorities.

Our assessment

- 6.83 As set out in Appendix D, the merged firm would become the largest car club in London with a combined proportion of all London car club vehicles of [redacted] per cent. As set out in Appendix J, we found that Streetcar and Zipcar each had similar proportions of on-street spaces (around [redacted] per cent of their total spaces in each case), Connect by Hertz would have the fewest (around [redacted] per cent) and City Car Club would have the most (around [redacted] per cent). We noted that all London car clubs had access to on-street parking to some extent.
- 6.84 We asked the London boroughs whether they had single-operator policies and what criteria they used to assess bids for on-street parking (see Appendix I).
- 6.85 We found that 25 out of the 32 London boroughs operated a car club scheme. Of the 15 boroughs that had a single-operator policy or a single car club provider,⁶² Streetcar had won those contracts in 14 cases and Zipcar in one. In addition, we found that 12 boroughs had operated a competitive tender process, of which seven (Camden, Hackney, Haringey, Islington, Kingston, Southwark and Wandsworth) used a similar set of criteria to assess which operator would win on-street parking. One of these criteria was 'performance', and six of these seven boroughs explicitly stated that membership numbers were a dimension of the performance criterion (Haringey, Kingston, Lambeth Southwark and Wandsworth). In addition, Lambeth and Westminster stated that they used membership as one of their criteria for selecting

⁶¹We consider whether access to on-street parking does indeed act as a barrier to entry in [Section 7](#).

⁶²Enfield and Newham policy is not known but they have a single operator present.

which car club(s) should be allocated on-street parking.⁶³ Other qualitative criteria were also used by some boroughs, such as ability to provide to references (Camden, Waltham Forest and Enfield), which could also favour larger or more established operators.

- 6.86 However, we noted that there were many different criteria used to assess bids and the weight placed on these criteria varied from borough to borough.⁶⁴ Further, although a significant proportion of London boroughs have single-operator policies, this does not preclude entry by unsuccessful bidders using off-street parking.⁶⁵
- 6.87 We examined whether the merger was likely to increase any barrier to entry associated with access to on-street parking. Two of the 18 London boroughs that responded to our questionnaire and that allocated some on-street parking spaces to car clubs suggested that, after the merger, the main parties might not be allocated as much on-street parking as before. Wandsworth told us that the merged firm would not be able to obtain as many spaces as the combined total of the two parties had they remained separate. We understand that this would be significant as the borough moves towards a multi-operator policy. Lambeth told us that it wanted to see balanced networks so it might favour other operators if the merged firm had reached a certain level of parking allocation. However, two other boroughs (Kingston and Southwark) suggested that the merged firm might find it easier to win the single-operator contract for parking spaces in their boroughs as number of members was an important criterion in awarding the contract.
- 6.88 We found that the bid assessment criteria that might favour larger or more established operators were only a few of the many criteria used to assess bids for on-street parking, and were therefore unlikely to determine the outcome of bids in isolation. Further, we noted that local authorities controlled the processes by which on-street parking was allocated to car clubs. Multi-operator boroughs, which have already decided to allocate their on-street parking to more than one car club could, in future, alter the criteria they use (and/or the weight they give to those criteria) if these are leading to outcomes they would be likely to consider undesirable, such as one car club being allocated an inappropriately large number of parking spaces. Boroughs which are currently single-operator boroughs could also alter their bid assessment criteria and/or their allocation policies (particularly the 'winner takes all' aspect of their single-operator policies) if these were leading to lower-quality outcomes for their residents. In addition, evidence from London boroughs was mixed and did not support the theory that the merger would be likely to result in the merged firm obtaining a greater share of the available on-street parking than Streetcar and Zipcar would have done in total before the merger. We concluded that the merger was unlikely to significantly increase any barrier to entry arising from access to on-street parking.

7. Entry and expansion

- 7.1 We examined whether entry into the affected markets (or expansion by existing market participants) would be sufficient to replace the loss of competition between

⁶³The main parties argued that the performance criterion was used by local authorities generally only in order to assess an operator's commitment to a borough, which be demonstrated in other ways, for example by an operator committing to a certain level of investment in the area. There was no evidence to support this claim and we noted that some boroughs had both marketing spend and performance criteria, suggesting that these boroughs saw these to be separate dimensions to the assessment.

⁶⁴For instance, Hackney told us that 'performance' has a weighting of 20 per cent.

⁶⁵Ten of the London boroughs with single-operator policies have other car clubs active in the borough using off-street parking spaces.

Zipcar and Streetcar. We considered whether such entry and/or expansion would be (a) timely; (b) likely; and (c) sufficient to prevent an SLC.⁶⁶

7.2 We looked at

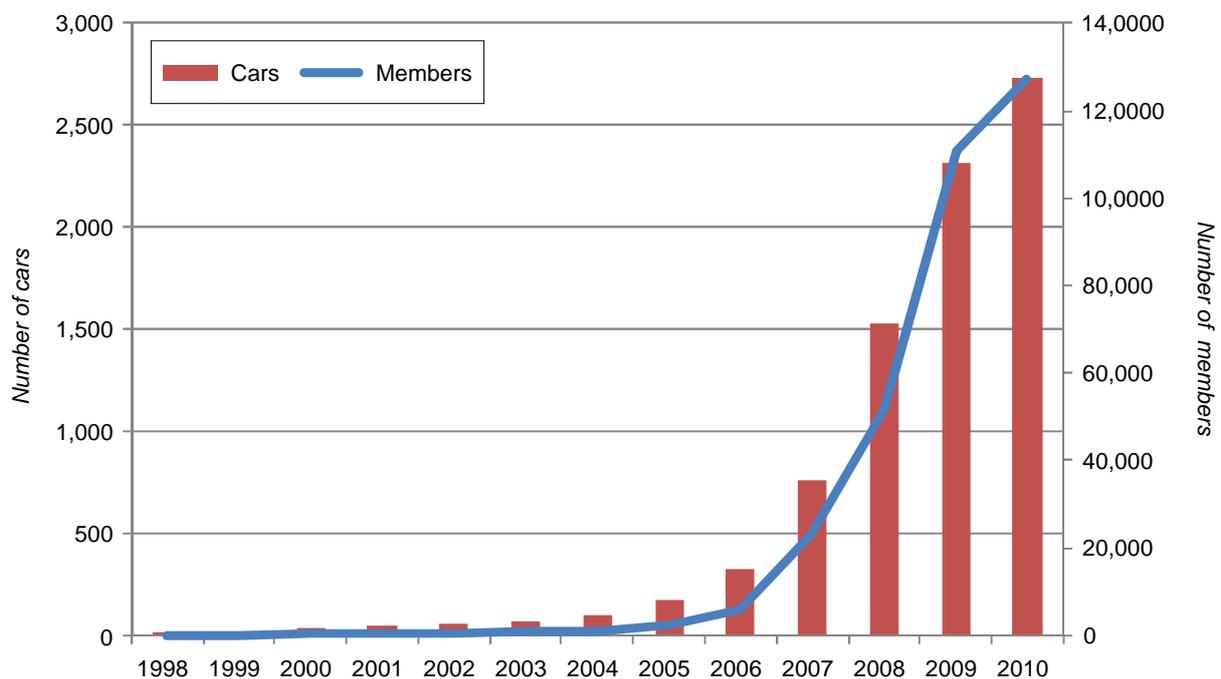
- (a) the degree to which the market for car clubs is growing. In a growing market, new entrants may gain customers without having to win them away from existing relationships with competitors;
- (b) whether there were any advantages to being the first mover which could act as barriers to entry (such as privileged access to parking spaces or economies of density);
- (c) whether there were potential entrants ready to operate in the car club market; and
- (d) whether existing car club operators in the UK (Hertz and City Car Club) could expand if necessary.

Growth in the market

7.3 Since its inception in the late 1990s, the UK car club market has grown rapidly, both in terms of membership and fleet size (see Figure 1).

FIGURE 1

UK car club market growth to date



Source: Carplus submission to the CC.

7.4 Various parties told us that car clubs were likely to continue to grow rapidly:

⁶⁶The Guidelines, paragraph 5.8.3.

- (a) Carplus, a UK charity promoting responsible car use, estimated that car club membership could grow from the current 130,000 members to 1 million members by 2020. This would be an eightfold increase in membership. Carplus also told us that the car club market was growing particularly quickly in Greater London, as a result of favourable demographics, and the density and accessibility of public transport. According to Carplus, car club growth had been accelerated by public support from London boroughs, TfL and the Mayor's Office.
- (b) City Car Club suggested that there had so far been only a 10 per cent penetration of the potential car club market in London, and less than 10 per cent outside London, where growth was slower, but still considerable.
- (c) Greenwheels told us that London had much greater car club growth potential than other large UK cities, based on its experience in Amsterdam (which is only 25 per cent larger than Rotterdam but in which Greenwheels had nine times as many members, despite lengthy operation).
- (d) The business research and consulting firm Frost and Sullivan estimated that the UK car club market would grow from 106,000 members and 2,350 vehicles in 2009 to 2.3 million members and 21,854 vehicles in 2016.⁶⁷
- (e) The London boroughs of Islington and Camden commissioned their own research into the car club market potential in those two boroughs. This study found that the potential for future car club members, based on the current car club service in those boroughs, was 65,700 members (27 per cent of the population) in Camden and 39,700 members (22 per cent of the population) in Islington.⁶⁸

7.5 In light of this evidence, we found that the demand for car clubs was likely to continue to grow rapidly. We next assessed whether there were any barriers that would prevent existing operators or new entrants responding to this demand.

Barriers to entry and first-mover advantages

7.6 We analysed whether there were any inherent features of the car club market which would create advantages for the most established or largest operator in the industry. In particular, we investigated scale advantages, economies of density, marketing, access to funding, access to parking and barriers to switching as possible sources of first-mover advantage.

Scale advantages

7.7 The evidence on the existence of scale advantages was mixed (see Appendix J). Some parties told us that the minimum viable scale for an urban car club was anywhere between 20 and 200 vehicles. Another party told us that a stand-alone car club operator would need 500 to 1,000 cars to be profitable, although a car rental company running a car club would need fewer vehicles than this to achieve profitability, as it would only need to cover its incremental costs over running its car rental business.

7.8 We estimated the main parties' costs of acquiring a new member, to determine if Streetcar's scale prior to the merger gave it any cost advantages in this area. Our

⁶⁷ *Sustainable and Innovative Personal Transport Solutions – Strategic Analysis of Carsharing Market in Europe*, Frost & Sullivan, January 2010.

⁶⁸ The four London car clubs collectively had 5,200 members in Camden and 8,300 members in Islington at the end of 2009.

analysis of the data provided to us by the main parties (see Appendix J) suggested that Streetcar's costs of acquiring new members [redacted].

- 7.9 We also considered whether scale could be a barrier to entry because some local markets were too small to sustain more than one car club company. We noted that Zipcar's UK operations were located in 14 inner London boroughs. We considered that the potential market in these boroughs would be sufficiently large (and growing sufficiently quickly—see paragraphs 7.3 to 7.5) to support more than one operator, and therefore that, in these boroughs at least, the size of the market would not be a barrier to entry.
- 7.10 We examined whether new entrants might need to enter on a large scale to be effective, for example because consumers valued having access to a network of car club vehicles. Data from Streetcar and Zipcar (see Appendix J) showed that over half of their members used cars in more than one borough. Information from Zipcar suggested that [redacted] per cent of all bookings were outside the member's 'home' borough. Our survey found that 9 per cent of the main parties' members picked their cars up from both home and work and a further 7 per cent of members considered it important to be able to pick up cars from different locations. On the other hand, Greenwheels told us that, whilst a wide network of cars was important for a car club operator, it was not as important as density of the car network. According to Greenwheels, a wide network of cars attracted prospective customers (who saw it as an advantage when they made their decision which car club to join) but, once they had joined, their actual use of the network was more limited.
- 7.11 Overall, we found that car clubs were not high-fixed-cost businesses relative to the size of the market (see Appendix J). On balance we found there to be some modest advantages in the car club market from scale and from providing a wide network of vehicles.

Economies of density

- 7.12 We examined whether there were advantages in a car club operator having a dense (as opposed to a widespread) network of vehicles such that the need to achieve a critical density would act as a barrier to entry.
- 7.13 As set out in paragraph 6.49, several car club operators told us that car clubs competed with each other both to locate their cars closest to members and to provide alternative vehicles within easy reach of members if their closest vehicle were not available (which ensured that members experienced good levels of car availability (see Appendix J). The denser a car club's network, the more vehicles members were likely to have within easy reach.
- 7.14 However, the main parties (and some third parties) told us that customers chose a car club on the basis of the single closest car to their home/work (or sometimes on the basis of the type of vehicle available), rather than on the basis of the density of vehicles within easy reach. The main parties also argued that there was considerable scope for new entrants to successfully create dense car sharing operations at a very local level.

- 7.15 Evidence from our survey indicated that proximity of a car and density of network were important considerations for members, albeit not the only considerations.⁶⁹
- 7.16 We found that, while density was an important element of competition that a new entrant in a given area would have to consider, a new entrant could, if necessary, achieve density without scale by focusing its resources in a small geographic area, such as a single London borough or a smaller area. We noted that there was some evidence that focusing on certain geographic areas rather than aiming for the widest possible network was a plausible business strategy, in that in North America, Zipcar faced competition in certain cities from other car clubs that only had operations in one or a small number of cities (for example, IGO in Chicago; Connect by Hertz and Mint in New York; Philly Car Share in Philadelphia; City Car Share in San Francisco; Auto Share in Toronto; and Co-operative Car Network in Vancouver). We therefore concluded that economies of density were likely to exist, but were likely to be local in scope.

Marketing

- 7.17 We analysed the main parties' profit and loss accounts and found that advertising represented about [redacted] per cent of Zipcar's total costs and [redacted] per cent of Streetcar's total costs (see Appendix J). According to our survey of people who were not members of car clubs, 43 per cent of non-members who responded were aware of Streetcar, 16 per cent were aware of Zipcar, 12 per cent were aware of City Car Club and 9 per cent were aware of Connect.
- 7.18 Some third parties told us that the need for a large marketing spend was a barrier to entry for a new car club operator (see Appendix J). We saw evidence that one of the ways in which Streetcar responded to Zipcar UK's launch in 2007 was by increasing its marketing spend (see Appendix H).⁷⁰ However, we also saw evidence that word-of-mouth recommendations were one of the main ways in which car clubs gained members.⁷¹ Further, we noted that Zipcar successfully entered the London car club market without previously having a recognized brand name in the UK.
- 7.19 City Car Club explained its view that there were two possible models of growth for car clubs: (a) slower, organic growth with higher revenue per car, requiring less marketing expenditure; and (b) faster growth through aggressive advertising. According to City Car Club, Streetcar has chosen the second route to growth, which would lead to higher customer churn because aggressive advertising was indiscriminate and would generate not only loyal customers but many customers who would find that they did not use a car club as much as they had anticipated.
- 7.20 City Car Club told us that, in contrast, it relied on a low-cost marketing approach in London. This was partially because it lacked geographic coverage, which meant that higher visibility, less geographically-specific marketing such as tube advertising campaigns were not cost-justified. City Car Club told us that it invested heavily in

⁶⁹31 per cent of our survey respondents said that they chose to join a car club rather than use another mode of transport because it was easy to get to a car club vehicle. 38 per cent of respondents said that they chose Streetcar or Zipcar rather than another car club because it had more cars available close to their home/office compared with other car clubs; 25 per cent because they saw a car close to their home/office; and 21 per cent because it had a wider number of sites from which to collect cars.

⁷⁰The main parties argued that Streetcar's increased marketing spend in 2007 was [redacted] and was not a reaction to Zipcar's launch.

⁷¹According to our survey, 20 per cent of respondents chose Streetcar or Zipcar rather than a different car club because it was recommended by a friend. Advertising was not mentioned by respondents in this context. Streetcar's 2008 tender for on-street parking in Haringey noted that [redacted] per cent of new members came from word-of-mouth recommendations, [redacted] per cent from flyers/direct mail, [redacted] per cent from public relations and [redacted] per cent from advertising.

good customer service to spread word-of-mouth recommendations as this was the most significant way in which it acquired new members.

- 7.21 City Car Club stated that awareness of the benefits of car clubs within London had grown considerably in recent years. It explained that while marketing and further increasing public awareness were still key, momentum in the London market now existed. According to City Car Club, further assistance from government (local, national and relevant government departments) on raising awareness would help growth further, especially outside London.
- 7.22 Looking at the entirety of the evidence on marketing, we concluded that it did not represent a significant barrier to entry, given (a) the importance of word-of-mouth recommendations; (b) the demonstrated ability of at least one London car club operator to maintain its business with a relatively low marketing spend; (c) the level of support from public bodies in promoting the car club concept;⁷² and (d) our finding that economies of density and therefore the opportunities for growth are likely to be local (see paragraph 7.16).

Access to funding

- 7.23 Several third parties told us that access to finance for a business that was likely to be loss-making for a number of years could act as a barrier to entry (see Appendix J). The main parties also estimated the investment required to achieve a 5 per cent share of car club revenue, and said that [X] per cent of this investment would be recoverable. However, having analysed the main parties' cost structure, we found only one cost category which would be entirely sunk, namely marketing spend, which accounted for no more than [X] per cent of the main parties' costs.
- 7.24 We agree that access to finance can in principle act as a barrier to entry. However, in this case, the ongoing financial viability of Streetcar and Zipcar UK despite their historical losses (see paragraph 5.20), the desirability of the London car club market (see paragraph 3.8), the ability of existing market participants (eg City Car Club) to raise finance recently⁷³ and the predicted growth of car clubs in the UK (see paragraphs 7.3 to 7.5) we were not convinced that access to finance was a significant barrier to entry.

Access to parking

- 7.25 Car club operators need parking spaces in which to place their cars to be able to offer their services to consumers. Such car parking spaces need to be conveniently located so that consumers can easily access them. There are two main types of parking space: (a) on-street spaces and (b) off-street spaces. On-street spaces are generally kerbside spaces allocated by local authorities, although in a very small minority of cases, they can also be on-street parking spaces in private developments. Off-street spaces include commercial parking spaces as well as the driveways of private individuals.

⁷²For example, TfL directly promotes an awareness of the car club concept, and in this financial year is focusing on doubling the number of car club spaces from 2,000 to 4,000. London boroughs can also apply directly to TfL for financial assistance to meet the costs of implementing new car club spaces. As well as direct support, TfL provides funding to the Carplus organization, which is involved in promoting the use of car clubs.

⁷³City Car Club raised £1.8 million of new finance in March 2010.

Main parties' views

- 7.26 The main parties told us there were advantages and disadvantages to both off-street and on-street spaces. On the one hand, off-street spaces were abundant and operators were often able to place marketing material around and near the space. Compared with an on-street space, less investment was needed to set up an off-street space and less management time was needed to maintain it. According to the main parties, the main disadvantage of off-street spaces was that they were generally more expensive than on-street spaces.
- 7.27 The main parties told us that the key advantages of on-street parking were: proximity to customers, guaranteed on-street space for the duration of the contract with the local authority and lower costs per space than for off-street parking. The disadvantages were: no possibility of branding the space; substantial management costs (in terms of bidding for the local authority contract and negotiating contract terms); the administration costs of managing parking permits; an increased risk of vandalism compared with off-street spaces; limited flexibility in terms of placement of spaces; delays in implementation of parking spaces; the need to place vehicles in on-street spaces shortly after allocation (and with little chance of leaving spaces empty or moving vehicles around to respond to demand); and the need to move cars to accommodate roadworks.
- 7.28 The main parties stated that it was not necessary to have on-street parking in order to be an effective car club operator. They pointed out that Streetcar did not have any on-street parking in the first 13 months of its existence and there remained some key boroughs for car clubs which either did not offer on-street parking or where all Streetcar's spaces were off-street. Similarly, they noted that Zipcar launched its services in London with off-street locations.

Our assessment

- 7.29 There was evidence in both Streetcar and Zipcar's internal documents that they considered obtaining on-street parking to be very important (see Appendix J). We noted that much of this evidence came from 2007, and the main parties argued that their views had evolved since then. Most third parties who provided evidence on access to parking also told us that inability to secure on-street parking was a barrier to entry, largely because the spaces were cheaper and more accessible to potential members than off-street spaces (see Appendix J). However, Carplus and Islington Council told us that on-street parking was not a prerequisite for a car club operator, and that operators could establish a presence using off-street spaces before also gaining on-street spaces.
- 7.30 The evidence from the London boroughs and the London car club operators indicated to us that there was no shortage of off-street spaces for car club operations (and very little contention between operators for particular spaces), provided a car club operator was prepared to pay a commercial rate for those spaces (see Appendix J).⁷⁴ Therefore, we focused on whether access to on-street spaces was a barrier to entry. We explored the following issues:
- (a) whether on-street parking represented a considerable proportion of car clubs' costs;

⁷⁴For example, when Streetcar did not win the 2008 Westminster tender for on-street parking, it was able to rapidly expand its off-street network in Westminster.

- (b) whether on-street parking was significantly cheaper than off-street parking;
- (c) whether some competitors had access to considerably more on-street parking than others;
- (d) whether the criteria used by local authorities to allocate on-street parking favoured certain competitors over others; and
- (e) whether there were any regulatory requirements that influenced the allocation of parking spaces.

Importance of parking costs

- 7.31 We noted that parking represented [redacted] per cent of Streetcar costs and [redacted] per cent of Zipcar costs (see Appendix J). Zipcar attributed [redacted] (see paragraph 6.74).

Relative cost of on-street and off-street parking

- 7.32 We analysed average monthly costs for on- and off-street parking spaces from Streetcar, Zipcar and Connect (see Appendix J). Our analysis showed that, for Streetcar and Connect, off-street spaces were on average more than [redacted] times as expensive as on-street spaces. For Zipcar, off-street parking was also considerably more expensive, [redacted].⁷⁵ The main parties told us that the gap between the pricing of off-street and on-street parking was narrowing and the permit fee was not the total cost of on-street parking. Streetcar listed further costs attributable to on-street parking including administration costs, break-in cover, out-of-location issues⁷⁶ and set-up costs. Hertz told us that the costs of theft, vandalism, and third party use of bays applied equally to off-street parking, and noted that administration costs were also incurred in administering off-street bays. Our more detailed observations on the costs of on-street and off-street parking (and the effect of the Road Traffic Regulation Act 1984 on the amount that local authorities can charge for on-street parking) are set out in Appendix J.

Distribution of on-street parking between competitors

- 7.33 As shown in Appendix J, we found that Streetcar and Zipcar had a similar proportion of on-street parking spaces (about [redacted] per cent) while City Car Club had a higher proportion (around [redacted] per cent) and Connect had a lower proportion (around [redacted] per cent).

Allocation of on-street parking by local authorities

- 7.34 We asked each London borough⁷⁷ (a) whether on-street parking in general was plentiful; (b) how on-street parking for car clubs was distributed; and (c) whether less-established car club operators could obtain on-street parking.
- 7.35 We found that, in most London boroughs and particularly in inner London boroughs, on-street parking was scarce.

⁷⁵Zipcar explained that [redacted].

⁷⁶Caused by other drivers parking in Streetcar's spaces, which requires it to move the car from its temporary parking slot back into its proper slot.

⁷⁷We note that parking and its distribution by local authorities was only mentioned to us as a potential barrier to entry in London. We therefore focused our analysis on London boroughs.

- 7.36 We found that out of the 25 London boroughs that provided on-street parking spaces for car clubs, 13 operated a single-operator policy which meant that they allocated the totality of their on-street parking spaces to one operator⁷⁸ (see Appendix J). Whilst single-operator boroughs might review their choice of car club operator periodically (typically when their existing contract with their car club operator came to an end), we noted that they would have to consider carefully the impact on existing car club members of any switch the borough might wish to make to a new operator. However, there was evidence that single-operator boroughs were prepared to switch operators and that any disruption to existing members could be minimized.⁷⁹
- 7.37 Single-operator boroughs did not tend to oppose allocation to more than one operator on principle, although some expected to continue with a single-operator policy in the future nonetheless (eg Redbridge). Rather, these boroughs were concerned about the following issues associated with multi-operator policies:
- (a) how spaces could be allocated fairly to multiple operators;
 - (b) the risk of diluting each operator's network by allocating spaces across several operators;
 - (c) the additional work for the local authority that multi-operator arrangements might entail;
 - (d) the need to see how these arrangements looked in other boroughs before taking a decision whether to pursue a multi-operator policy themselves; and
 - (e) whether the borough was large enough to warrant a multi-operator policy, although the borough would consider it if the market developed.
- 7.38 We noted that many boroughs allocated on-street spaces on the basis of a competitive tender, although the price the car club operator was willing to pay for each bay was almost never the main or the only criterion considered,⁸⁰ and indeed was only infrequently a criterion that was considered at all (with the exception of Westminster, where price per bay was one of the six criteria it used to assess bids to run the Westminster Car Club—see Appendices I and J)). Rather, boroughs tended to nominate the amount that the successful bidder would pay for each bay, and this was often based on the charge for a resident's or business parking permit. A range of other criteria were used for evaluating bids, including quality of service, proposed marketing spend, charges to be made to members, reputation and ability to provide references from operations elsewhere.
- 7.39 With respect to the position of less-established operators and new entrants in these tender processes, we found that, although boroughs generally did not actively exclude any competitors, they nonetheless expected candidates for on-street parking

⁷⁸This may be contrasted with a 'multi-operator' policy under which a borough allocates its on-street car club spaces to more than one operator (although not necessarily to every car club operator that has approached it). TfL told us that it did not have a preference for multiple- or single-operator policies and left the decision to individual boroughs. However, it prepared a note on the advantages and disadvantages of these policies which it shared with the boroughs. TfL also told us that some boroughs found that managing multiple operators was more costly than managing just one. Some boroughs also preferred to market one car club as a strong alternative to car ownership, to avoid confusing residents and to promote stronger brand awareness.

⁷⁹Islington switched its single-operator arrangement from City Car Club to Streetcar. City Car Club remained in Islington using off-street spaces. Existing City Car Club members were offered discounted membership fees to join the new operator.

⁸⁰The impact of the Road Traffic Regulation Act 1984 on what local authorities can charge for parking spaces is discussed in Appendix J.

to have an established business model (eg Camden, Kensington and Chelsea,⁸¹ Westminster) and to be able to provide references (eg Haringey). Single-operator boroughs often used the existing number of members in the borough as one of the criteria for evaluating tender bids (eg Haringey, Southwark), and some multiple-operator boroughs allocated some or all of the available spaces between operators on the basis of the number of members in the borough (eg Lambeth, Kensington and Chelsea). One borough (Wandsworth) required previous experience in running a car club. In paragraphs 6.79 to 6.88 we evaluated whether the merger has increased any barrier to entry associated with the processes used by local authorities to allocate on-street parking. We found that the merger had not increased this barrier to entry.

- 7.40 We asked the London boroughs about their plans for expanding the number of on-street spaces available to car clubs (see Appendix J). Some boroughs had concrete plans, whilst others indicated that the number of spaces they would make available had not yet been decided, or was dependent on demand and available funding. There did not appear to be any hard limits on the number of spaces likely to be available, and, if on-street parking was freed up as predicted as a result in the growth of car club membership,⁸² local authorities might face fewer concerns from residents in making additional on-street parking available for car clubs. However, we noted the possibility that, in single-operator boroughs, any new on-street spaces might automatically be allocated to the existing on-street operator in that borough.

Regulatory requirements

- 7.41 Most boroughs told us that they required a car club to have Carplus accreditation to be considered for possible allocation of on-street parking spaces. None of the parties that submitted evidence during this inquiry told us that this requirement would prevent a new entrant obtaining on-street parking spaces.

Conclusions on access to parking

- 7.42 We noted that the four London car club operators had varying proportions of on-street parking, with [X] having the largest proportion and [Y] having the smallest proportion (see Appendix J). We did not see any link between the size (or success) of a company and its proportion of on-street parking. On-street parking is on average cheaper, although the cost of parking is not a large proportion of the cost of operating a car club. We have found competition between Streetcar and Zipcar on the basis of pricing, network capacity and density (see paragraphs 6.69 and 6.70), yet, with the exception of Westminster, Zipcar has not won single-operator status in any London borough. In Westminster, Zipcar was able to win the tender to become the single operator by making its bid sufficiently attractive, despite being a relative newcomer in the market. Zipcar and Streetcar both launched their London operations using off-street spaces, and entry is also possible using on-street spaces in multi-operator boroughs. However, access to on-street parking in single-operator boroughs is restricted. In these boroughs, those operators which do not have exclusive access to

⁸¹Kensington and Chelsea allocated its on-street car club parking in two batches. The first batch was split evenly between the car club operators who expressed interest in the spaces. When it expanded the number of spaces in 2010, it allocated half the spaces evenly between operators and the remaining half based on the performance of each car club in the previous years in terms of growth of active members (those who had used a car club vehicle in the previous six months).

⁸²The Carplus annual survey of car clubs 2009/2010 states: 'each car club car is estimated to result in an average of 11 private vehicles being sold. Inclusion of those that might otherwise have been purchased suggests that each car club vehicle is potentially displacing more than 20 private vehicles'.

on-street parking must use off-street spaces.⁸³ Overall, we concluded that access to on-street parking could act as a barrier to entry at a local level.

Barriers to switching

7.43 The only barrier that we identified to consumers switching between car clubs was the membership fee. However, given that most new car club members come from growth in the market rather than switching between operators⁸⁴ and that there was evidence of car clubs offering free or discounted membership to members of other car clubs who switched,⁸⁵ we did not consider that the existence of a membership fee represented a significant barrier to entry.

Potential entry

7.44 The main parties argued that a large number of foreign car club companies, including Greenwheels, Cambio and Mobility could seek to enter the UK market. They also argued that traditional car rental companies were well placed to reposition their offerings and enter the market, and that car manufacturers too were in a position to enter the market. Zipcar's internal documents confirmed that Zipcar was conscious of the risk of entry by traditional car rental companies. Zipcar had also analysed in detail what car hire companies, parking operators and brands such as Virgin would require to enter car club operations. In response to our provisional findings, the main parties provided further information about growth in the market, additional funding for the development of on-street parking spaces for car clubs in London and the recent behaviour of potential entrants, all of which they argued supported the likelihood of new entry.

7.45 We asked third parties that appeared to be credible entrants into the UK car club market whether they were able and willing to do so (see Appendix J). We found two potential entrants with well-developed plans to enter, Greenwheels and [REDACTED]:

(a) Greenwheels was invited to bid for on-street parking by the [REDACTED] and entered the bidding process. [REDACTED] It believed that the merger would make it harder for it to compete in London. Greenwheels told us that it did not yet have any sunk costs of entry and could therefore reconsider. [REDACTED] confirmed to us that it had received a bid from Greenwheels for on-street parking allocation in [REDACTED] in response to [REDACTED] procurement process (started because current contracts were coming to an end), and that the council was highly likely to allocate on-street parking to Greenwheels (if it still wanted them) when the council next made more spaces available.

(b) [REDACTED] was very positive about its entry plans [REDACTED].

7.46 The other large operators considering entry were [REDACTED] and [REDACTED]. [REDACTED] One small operator, [REDACTED], was considering entering but said that it was discouraged by difficulties in acquiring parking spaces.

⁸³We noted that a car club operator could use off-street spaces and/or on-street spaces in multi-operator boroughs as a springboard for obtaining on-street parking in single-operator boroughs over time.

⁸⁴Given the growth in the market as set out in paragraph 2.4 and the main parties' exit survey evidence which indicated that only 0.8 per cent of members leaving Streetcar were intending to join another car club.

⁸⁵City Car Club told us that it offered free membership for a year to members of other car clubs, and that Zipcar had waived its membership fee for members of other car club operators as well.

Expansion by existing car clubs

- 7.47 The main parties told us that the firms already active in the car club business in the UK such as Connect by Hertz, City Car Club and EuropcarClub would further expand their presence. Similarly, the main parties expected Commonwheels, an operator that currently provided services in 13 locations outside London, to expand further.⁸⁶
- 7.48 Hertz launched Connect in the UK in 2008. Hertz told us that when it launched it had a five-year plan anticipating it would end 2010 with approximately [X] cars in London and a ratio of [X] on-street spaces for every [X] off-street space. Instead, by the end of 2010 it was likely to have [X] cars and [X] off-street spaces for every [X] on-street bay. Hertz revised its expansion plans during spring 2010. The 2010 annual budget plans showed that the business plan budgeted an increase in fleet size from [X] whilst the current estimate showed an expansion from [X]. Further plans to expand would depend on the availability of on-street parking.
- 7.49 City Car Club told us its plans for London until 2011 were to increase network density but not necessarily increase its territory unless it had an opportunity to enter a new borough. It expanded its presence in London from 105 cars in 2007 to 198 cars in 2010, with a high proportion of on-street spaces at around 80 per cent. It intended to continue to grow its fleet in London on a relatively minor scale in boroughs where it already had an allocation of on-street parking. It had new parking spaces in the pipeline over the next 12 to 18 months with a London fleet size budgeted at 230 by December 2011. City Car Club believed that chances for large growth in London were effectively limited by the way in which the London boroughs allocated on-street parking spaces.

Conclusions on entry and expansion

- 7.50 In assessing whether entry or expansion might prevent an SLC, the Guidelines require us to consider whether such entry or expansion would be (a) likely, (b) sufficient, and (c) timely.⁸⁷
- 7.51 We found that the car club market in the UK was likely to continue to grow rapidly (see paragraph 7.5).
- 7.52 We examined possible barriers to entry and found that:
- (a) there were some modest advantages from scale and from providing a wide network of vehicles (see paragraph 7.11);
 - (b) economies of density were likely to exist, in that a denser network would result in better vehicle availability for members (see paragraphs 7.12 to 7.16) but were likely to be local in scope;
 - (c) marketing spend and access to finance more generally were not likely to be significant barriers to entry (see paragraphs 7.22 and 7.24);

⁸⁶We do not consider Europcar or Commonwheels to be existing car club operators in the sense in which we are considering the car club market in this inquiry. Europcar's EuropcarClub product requires vehicles to be collected from depots and members do not have 24-hour access to vehicles. Commonwheels is a Community Interest Company, which means it is motivated by environmental and social goals rather than commercial considerations. We therefore do not consider these companies further in this section.

⁸⁷The Guidelines, paragraph 5.8.3.

(d) access to on-street parking could act as a barrier to entry at a local level (see paragraph 7.42); and

(e) whilst the membership fee could act as a barrier to switching, this was unlikely to be a barrier to entry given the growth in this market (see paragraph 7.43).

- 7.53 There was evidence of two credible entrants with well-developed plans to enter the car club market in the UK (see paragraphs 7.45 and 7.46), along with evidence that other large companies in adjacent markets were considering entry as well. Further, the two other car club operators in London planned to expand (see paragraphs 7.48 and 7.49) although they told us that their expansion plans were limited by restricted access to on-street parking.
- 7.54 We concluded that, taken together, the barriers to entry that we identified would be insufficient to deter entry by at least one new operator and some expansion by the two other existing car clubs in London, supported by the attractiveness of the London market and prospects for rapid growth. Whilst we could not conclude that entry was certain to occur, we expected, on the basis of the evidence we saw, that entry and some expansion was likely.
- 7.55 We next considered whether entry and expansion would be sufficient to replace the loss of competition between Zipcar and Streetcar as a result of the merger. Given that on-street parking is allocated on a borough-by-borough basis, and that it is possible that there are some advantages to having a dense network, we expected that the new entry would be focused on a small number of boroughs initially. The new entrant would have an opportunity to expand into other boroughs as it built up its reputation and membership base in London. In addition, a single-operator borough could at any time decide to sponsor further new entrants by allocating its on-street parking accordingly. Moreover, well-resourced operators from adjacent markets are interested in expanding into the car club market: Hertz has already established itself in the car club industry in the UK and [redacted] is considering the possibility of UK entry. As a result, we expected that new entry and expansion would be sufficient to constrain the prices and prevent any deterioration in the service levels of a merged Streetcar-Zipcar.
- 7.56 Finally, we considered whether entry would be timely.⁸⁸ We noted that, within approximately two years of entering the London car club market, Zipcar had about [redacted]⁸⁹ members and [redacted]⁹⁰ vehicles. At the time of the merger in April 2010, Zipcar had about [redacted]⁹¹ members and approximately [redacted]⁹² vehicles. Further, Zipcar provided data that showed that in certain North American markets (Toronto, San Francisco and Chicago), although Zipcar entered between four and eight years later than other car clubs active in those markets, it had obtained a leading share of the market within significantly less than two years of its launch in each case. We therefore expected that, given that entry seemed likely to be imminent, a new entrant could broadly replicate the pre-merger constraint of Zipcar within a few years.
- 7.57 On this basis we expected that, although the merger resulted in the loss of competition between Streetcar and Zipcar such that price rises were likely in the short term, and although some entry barriers existed, entry (together with some expansion)

⁸⁸The Guidelines state: 'The Authorities may consider entry or expansion within less than two years as timely, but this is assessed on a case-by-case basis, depending on the characteristics and dynamics of the market, as well as on the specific capabilities of potential entrants.'

⁸⁹[redacted] members as at 30 June 2009.

⁹⁰[redacted] cars as at 30 June 2009.

⁹¹[redacted] members as at 31 March 2010.

⁹²[redacted] cars as at 31 March 2010.

would be likely, timely and sufficient to prevent an SLC and to prevent a merged Streetcar-Zipcar from exercising market power to the detriment of consumers in the medium to long term.

8. Findings

- 8.1 As set out in paragraphs 6.69 and 6.70, we found that the merger may be expected to result in a loss of competition between Zipcar and Streetcar in the London boroughs where their services overlapped before the merger, and a loss of potential competition between them to increase their network densities in those boroughs. However, we also expected that entry (together with some expansion) would be timely, likely and sufficient to prevent an SLC from arising, because we expected such entry and expansion to prevent a merged Streetcar-Zipcar from exercising market power to the detriment of consumers in the medium to long term (see paragraph 7.57).
- 8.2 We therefore found that the merger may not be expected to result in an SLC in the car club market in London.

9. Closing remarks

- 9.1 In the course of our inquiry, we noted that about half of the London boroughs that made on-street parking available for car clubs gave all such parking spaces to one car club operator (see paragraph 7.36). In those London boroughs, this creates an artificial distinction (at a local level) between the competitive positions of the car club that has on-street parking and the other car clubs that do not. This policy may also have the effect of slowing growth in the market.
- 9.2 We believe that the development of the car club market would be assisted by local authorities avoiding such exclusivity or at least limiting such exclusivity to their initial piloting of on-street parking for car clubs. In the latter case, we believe that growth in the market would be assisted if any period of exclusivity lasted no more than a year, after which on-street parking should be made more widely available.
- 9.3 We noted that other London boroughs were successfully using multi-operator policies to allocate on-street parking to car clubs. Further, we noted that allocation of on-street spaces to multiple operators did not adversely affect the network of vehicles available to members of a particular car club.⁹³ This is because car club operators can use off-street spaces alongside on-street spaces to meet members' needs (see paragraph 7.42), including creating a dense network to ensure good vehicle availability to members, without the need for a large-scale network (see paragraph 7.16).

⁹³Some single-operator London boroughs referred to this as the risk of 'diluting the network'.