

## Terms of reference and conduct of the inquiry

### Terms of reference

1. On 10 August 2010 the OFT sent the following reference to the CC:
  1. In exercise of its duty under section 22(1) of the Enterprise Act 2002 ('the Act') to make a reference to the Competition Commission ('the CC') in relation to a completed merger the Office of Fair Trading ('the OFT') believes that it is or may be the case that—
    - (a) a relevant merger situation has been created in that:
      - (i) enterprises carried on, by or under the control of **Zipcar, Inc.** have ceased to be distinct from enterprises carried on, by or under the control of **Streetcar Limited**; and
      - (ii) as a result, the conditions specified in section 23(4) of the Act will prevail, or will prevail to a greater extent, with respect to the supply of car club services in the UK; and
    - (b) the creation of that situation has resulted or may be expected to result in a substantial lessening of competition within any market or markets in the UK for goods or services, including the supply of car club services in London.
  2. Therefore, in exercise of its duty under section 22(1) of the Act, the OFT hereby refers to the CC, for investigation and report within a period ending on 24 January 2011, on the following questions in accordance with section 35(1) of the Act—
    - (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 a substantial lessening of competition within any market or markets in the UK for goods or services.
  3. In relation to the question whether a relevant merger situation will be created, the CC shall exclude from consideration one of the subsections (1) and (2) of section 23 of the Act if they find that the other is satisfied.

(signed) Amelia Fletcher  
Senior Director, Mergers, Office of Fair Trading  
10 August 2010

## **Conduct of inquiry**

2. On 11 August 2010, we posted on our website an [invitation to comment](#) on the merger and a notice inviting views was placed in the Evening Standard on 17 August 2010. The [administrative timetable](#) for our inquiry was published on 23 August 2010 and the website also contains [biographies](#) of the members of the Group conducting the inquiry.
  
3. We invited a wide range of interested third parties to comment on the proposed merger, including other car clubs in London, local authorities in those areas where Streetcar and/or Zipcar had car club vehicles, trade associations, international car clubs, car manufacturers and not-for-profit car clubs. We sent detailed questionnaires to competitors, potential competitors and every London borough council, including the Corporation of London, and held 12 hearings with selected third parties, including car rental companies, other car clubs in London and London borough councils. Evidence was also obtained through telephone contacts and through further written requests.
  
4. [Non-confidential submissions from third parties](#) and [summaries of hearings](#) can be found on our website. During the inquiry, the CC received a considerable number of submissions from consumers as a result of an email sent by Streetcar to its members. [Summaries of those submissions](#) are on our website.
  
5. We commissioned TNS-BMRB to carry out a survey of Zipcar and Streetcar customers and of members of the public who did not belong to a car club. The [results of the survey](#) were published on the CC website.

6. On 10 September 2010, we published an [issues statement](#) on our website, setting out the areas of concern on which the inquiry would focus.
7. Members of the inquiry Group, accompanied by staff, visited Streetcar's offices in Wimbledon and were given a joint presentation by Zipcar and Streetcar on the operation of their businesses, and shown how to book and access vehicles.
8. We received written evidence from Zipcar and Streetcar, and [a non-confidential version of their main submission](#) is on our website. We also held hearings with both Zipcar and Streetcar on 12 October in joint and separate sessions.
9. In the course of our inquiry, we sent to Zipcar, Streetcar and other parties some working papers and extracts from those papers for comment.
10. We would like to thank all those who have assisted in our inquiry so far.
11. A non-confidential version of the provisional findings report has been placed on the CC website.

### ***Interim measures***

12. We took steps to ensure the separate and independent operation of the Zipcar and Streetcar businesses during the course of our inquiry.
13. Zipcar gave [initial undertakings](#) to the OFT under [section 71](#) of the Act on 8 June 2010 for the purpose of ensuring the separate management of the Zipcar and Streetcar businesses whilst the OFT proceedings were ongoing. Subsequent to signing the undertakings, Zipcar requested and was granted a number of [derogations](#) by the OFT.

14. The CC [adopted these undertakings](#), along with the derogations, when the merger was referred on 10 August 2010. We then considered whether any further changes were necessary to prevent pre-emptive action by the parties which might prejudice the reference or impede the application of effective remedies at the end of our inquiry should they be required, including assessing the need for a hold-separate manager or a monitoring trustee.
  
15. After considering evidence from Zipcar and Streetcar on the post-merger structure of the two companies, we decided that the appointment of a monitoring trustee was necessary and issued [directions for the appointment of a monitoring trustee](#) on 23 August 2010. The Monitoring Trustee was required to ascertain the degree of integration which had occurred between the two businesses, to supervise the establishment of mechanisms for ensuring compliance with the undertakings and to monitor Zipcar's compliance. The Monitoring Trustee continues to perform this function and report to the CC on a fortnightly basis.

## Pricing

### Zipcar

1. Zipcar's daily rates start at £29 for the hire on a weekday of a hatchback model car. Hourly rates for standard members range from £3.95 to £7.95 per hour.
2. Zipcar's pricing plans in London vary depending on whether customers are individuals or businesses. Individuals pay an annual membership fee varying between £25 and £50 per year. Other value plans are also available for an annual fee of £25 with monthly usage/spending commitments. Fees for hire of cars are then charged on the basis of hourly or daily rates, which vary depending on the model of car and the day/time for which cars are reserved. Zipcar's website allows consumers to compare the cost of car sharing with both car ownership and car hire.<sup>1</sup>
3. The cost of vehicle hire includes fuel for the first 60 miles per day, the congestion charge and insurance. Members are charged for fuel for journeys in excess of 60 miles per day at the rate of approximately £0.23 to £0.33 per mile, depending on the model of car.
4. Businesses pay a one-off account set-up fee of £75 and an annual fee of £10 for each driver on the account. Businesses pay for use of cars on the basis of hourly, daily or weekly rates, similar to those charged to individuals. Again, fuel is included for up to 60 miles travel per day with mileage in excess of that charged at of £0.23 to £0.33 per mile depending on the model of car.

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<sup>1</sup>[www.zipcar.com/london/rates/savings](http://www.zipcar.com/london/rates/savings).

5. Details of the pricing plans available to businesses are available on the Zipcar website.<sup>2</sup> Zipcar's website also allows businesses to compare Zipcar against traditional car hire companies.

## **Streetcar**

6. Streetcar membership is available for both businesses and individuals. Individuals currently pay membership fees of either £59.50 for one year or £99 for two years. The charge for use of the vehicle depends on the length of time it is hired, with rates offered on an hourly basis, daily basis, Monday–Friday basis, 7-day basis and 30-day basis. Hourly rates range from £4.95 for a small car to £8.95 for a premium car. Daily rates range from £49.50 to £89.50.<sup>3</sup> Streetcar's website also includes a car ownership calculator allowing customers to compare the cost of car ownership with car sharing.<sup>4</sup>
7. Businesses currently pay an annual membership fee of £99 and there is a charge of £10 for each additional driver on the account. The 'Streetcarforbusiness' website also includes a comparison facility, comparing the cost of car sharing with car hire, taxis, public transport, pool cars and private cars being used for business purposes (with mileage reimbursements).<sup>5</sup>

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<sup>2</sup>[www.zipcar.com/london/business/check-rates](http://www.zipcar.com/london/business/check-rates).

<sup>3</sup>Further details of membership fees and rates for individual members can be found at [www.streetcar.co.uk/pricing-1page.aspx](http://www.streetcar.co.uk/pricing-1page.aspx).

<sup>4</sup>See [www.streetcar.co.uk/cost\\_calc.aspx](http://www.streetcar.co.uk/cost_calc.aspx) for further details.

<sup>5</sup>These details can be found at [www.streetcarforbusiness.co.uk/comparisons/default.aspx](http://www.streetcarforbusiness.co.uk/comparisons/default.aspx).

## Financial information

### Zipcar financial information

#### *Zipcar historical and forecast profit and loss information*

- Zipcar's London operation was launched in 2007 through Zipcar UK. Table 1 illustrates Zipcar UK's profit and loss (P&L) figures on a stand-alone basis for 2007 to 2011. Revenue is split between driving and fee (or membership) reporting segments.

TABLE 1 Zipcar London stand-alone P&L for 2007–2011

	US\$				
	Actual 2007	Actual 2008	Actual 2009	Forecast 2010	Forecast 2011
<i>Revenue</i>					
U&P revenue	[X]	[X]	[X]	[X]	[X]
Fee revenue	[X]	[X]	[X]	[X]	[X]
Other revenue	[X]	[X]	[X]	[X]	[X]
Total revenue	[X]	[X]	[X]	[X]	[X]
<b>Total cost of sales</b>	[X]	[X]	[X]	[X]	[X]
<b>Gross profit</b>	[X]	[X]	[X]	[X]	[X]
Gross profit (%)	[X]	[X]	[X]	[X]	[X]
<b>Total operating expenses</b>	[X]	[X]	[X]	[X]	[X]
<b>Net operating income</b>	[X]	[X]	[X]	[X]	[X]
Net operating income (%)	[X]	[X]	[X]	[X]	[X]
Interest expense/income	[X]	[X]	[X]	[X]	[X]
Auto interest expense	[X]	[X]	[X]	[X]	[X]
Other income	[X]	[X]	[X]	[X]	[X]
<b>Net income/(loss)</b>	[X]	[X]	[X]	[X]	[X]
Gross profit (%)	[X]	[X]	[X]	[X]	[X]
Net income/(loss) (%)	[X]	[X]	[X]	[X]	[X]

Source: Zipcar.

- 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 £2.4 million) in 2009 and prior to the merger was forecast [X] driven by an increase in membership (from [X] members at 31 December 2007 to [X] members at 31 December 2009) [X].
- In each year of operation since its launch in 2007, Zipcar's UK operations have been loss-making at both a gross and an operating level. Between 2007 and 2009, losses

showed a declining trend, with operating losses of \$2.6 million (approximately £1.34 million) in 2007, \$2.2 million (approximately £1.28 million in 2008 and \$1.7 million (approximately £1.28 million) in 2009. The reduction in losses is primarily attributable to [REDACTED].

4. [REDACTED]

5. As illustrated in Table 1, forecasts prepared on 8 January 2010 for the Zipcar UK business as a stand-alone entity indicate that [REDACTED].

6. [REDACTED]

TABLE 2 Zipcar year to date (YTD) P&L—nine months to 30 September 2010

	YTD			
	<i>Actual</i>	<i>Budget</i>	<i>Variance</i>	<i>Variance %</i>
Members (end of period)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Fleet (usable)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
			£	
Total revenue	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total cost of sales	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Gross profit	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Gross profit (%)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Driving revenue/car	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Member services	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Marketing	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other operating expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total operating expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net operating income	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net income (loss)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net income/(loss) (%)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: Zipcar.

### ***Zipcar YTD 2010 performance***

7. Table 2 sets out the management accounts to 30 September 2010 for Zipcar's UK operations.<sup>1</sup>
  
8. These indicate that the business is currently [X]. The main parties told us that: [X].
  
9. Zipcar is currently [X].

### **Streetcar financial information**

#### ***Streetcar historical P&L***

10. Table 3 sets out the Streetcar historical P&L for the three years ending 31 December 2009. The table shows:
  - (a) figures for 2007 pro rata for 12 months (as the first accounting period for Streetcar was a 15-month period); and
  - (b) actual figures for 2008 and 2009.

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<sup>1</sup>These are presented in GBP, whereas Table 1 is presented in US\$.

TABLE 3 Streetcar historical P&amp;L

	Year ended 31 December			
	15 months to 31 December 2007	2007 12 months pro- rata	2008	2009
Members (end of period)	21,259	21,259	44,875	73,878
Fleet (cars only—end of period)	633	633	943	1,192
Turnover—usage revenue (£'000)	4,066	3,253	7,885	12,551
Turnover—other income (£'000)	<u>585</u>	<u>468</u>	<u>2,565</u>	<u>3,896</u>
Total turnover (£'000)	4,651	3,721	10,450	16,447
Direct vehicle costs (£'000)	(2,266)	(1,813)	(3,936)	(5,534)
Vehicle financing and trading costs (£'000)	<u>(1,445)</u>	<u>(1,156)</u>	<u>(2,471)</u>	<u>(2,160)</u>
Total cost of sales (£'000)	<u>(3,711)</u>	<u>(2,969)</u>	<u>(6,407)</u>	<u>(7,694)</u>
Gross profit (£'000)	940	752	4,040	8,755
Gross profit (%)	20	20	39	53
Indirect costs—employee costs (£'000)	(1,921)	(1,537)	(2,786)	(4,064)
Other overheads & marketing spend (£'000)	<u>(2,170)</u>	<u>(1,736)</u>	<u>(1,972)</u>	<u>(3,100)</u>
Total indirect costs (£'000)	<u>(4,091)</u>	<u>(3,273)</u>	<u>(4,758)</u>	<u>(7,164)</u>
Operating profit (£'000)	(3,151)	(2,521)	(718)	1,591
Operating profit (%)	-68	-68	-7	10
Financing costs (£'000)	48	38	(24)	(201)
Profit/(loss) before taxation (£'000)	(3,103)	(2,482)	(742)	1,390

Source: Streetcar.

11. Streetcar's revenue for the last three financial years was as follows: £4.7 million for the 15 months to 31 December 2007; £10.5 million for FY08 and £16.5 million for FY09 (based on UK generally accepted accounting principles (GAAP)). The main parties told us that the 2009 revenue figure equated to £14.7 million under Zipcar, Inc accounting policies (which are based on US GAAP).
12. The growth in turnover of [redacted] per cent between FY08 and FY09 is a result of the net effect of volume increases (arising from [redacted]). Streetcar's operations were loss-making from launch until 2008 and became profitable at an operating level in 2009, generating profit of £1.5 million according to its statutory accounts (£1.6 million according to its management accounts as above). The main parties stated in their main submission that

Although, based on UK GAAP a small profit was generated in 2009, in large part this was due to the gain on sale of vehicles which were

previously written down for impairment. When considered on the basis of US GAAP (the basis upon which Zipcar operates its group accounting practices), Streetcar made a small profit in 2009 of approximately £39,000.

13. In relation to the 2009 results we note the following points:

- (a) An exceptional profit on disposal of £718,000 was made in 2009 relating to the gain on sale of vehicles which were previously written down for impairment. The related impairment charge in 2008 of £2.7 million was made on the basis that the value of the company's fleet was adversely impacted by the economic downturn. The profit in 2009 was attributed to 'a very strong recovery in the used car market'.
- (b) A deferred tax asset of £1.7 million was recognized for the first time by the company<sup>2</sup> (£1.6 million unrecognized asset in 2008). This was recognized on the basis that 'the directors feel that the company has now demonstrated sufficient levels of profitability to support this asset'. We note that this only affects net, rather than operating, profit.

### ***Streetcar historical balance sheet***

14. Streetcar's balance sheet has remained in deficit since its launch in 2004 with net liabilities of £4.2 million at 31 December 2008, reducing to £1.1 million at 31 December 2009. The main parties told us that:

Streetcar anticipates that its balance sheet [redacted].

### ***Streetcar YTD 2010 performance***

15. Streetcar's trading performance in the nine months to 30 September 2010 has [redacted].

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<sup>2</sup>A deferred tax asset is recognized in respect of unutilized tax losses. Such an asset can only be recognized where it is more likely than not that there will be sufficient taxable profits generated by the entity in future periods from which the future reversal of the underlying timing differences can be deducted.

TABLE 4 Streetcar YTD P&L—nine months to 30 September 2010

£'000

	Nine months to 30 September 2010			2009	Full year	
	Actual	Budget	Variance		Budget	2009
<i>Turnover</i>						
Usage income	[X]	[X]	[X]	[X]	[X]	[X]
Streetcar	[X]	[X]	[X]	[X]	[X]	[X]
Streetvan	[X]	[X]	[X]	[X]	[X]	[X]
B2B	[X]	[X]	[X]	[X]	[X]	[X]
Other income	[X]	[X]	[X]	[X]	[X]	[X]
Total turnover	[X]	[X]	[X]	[X]	[X]	[X]
<i>Cost of sales</i>						
Direct vehicle costs	[X]	[X]	[X]	[X]	[X]	[X]
Vehicle financing and trading	[X]	[X]	[X]	[X]	[X]	[X]
Gross margin	[X]	[X]	[X]	[X]	[X]	[X]
Gross margin (%)	[X]	[X]	[X]	[X]	[X]	[X]
Indirect costs	[X]	[X]	[X]	[X]	[X]	[X]
Operating profit	[X]	[X]	[X]	[X]	[X]	[X]
Financing	[X]	[X]	[X]	[X]	[X]	[X]
PBT before exceptionals	[X]	[X]	[X]	[X]	[X]	[X]
Exceptionals/prior year items	[X]	[X]	[X]	[X]	[X]	[X]
PBT	[X]	[X]	[X]	[X]	[X]	[X]
EBITDA before exceptionals	[X]	[X]	[X]	[X]	[X]	[X]

Source: Streetcar.

16. The key variances relate to:

(a) [X]<sup>3</sup> and

(b) [X].

17. Performance in YTD 2010 was [X].

18. [X]

### Streetcar forecasts

#### Streetcar pre-acquisition 2010 budget (prepared by Streetcar)

19. Prior to the transaction, Streetcar prepared a budget for FY10 to FY12 based on 2009 planned results. This [X].

<sup>3</sup>[X]

TABLE 5 Streetcar pre-acquisition 2010 budget

	2009 Expected	2010 Plan	2011 Plan	2012 Plan
Members (at year-end)	[X]	[X]	[X]	[X]
Cars (at year-end)	[X]	[X]	[X]	[X]
Vans (at year-end)	[X]	[X]	[X]	[X]
UK cities/towns (at year-end)	[X]	[X]	[X]	[X]
Usage revenue (£'000)	[X]	[X]	[X]	[X]
Turnover (£'000)	[X]	[X]	[X]	[X]
Direct vehicle costs (£'000)	[X]	[X]	[X]	[X]
Vehicle trading and financing costs (£'000)	[X]	[X]	[X]	[X]
Gross margin (£'000)	[X]	[X]	[X]	[X]
Gross margin (%)	[X]	[X]	[X]	[X]
Salary costs (£'000)	[X]	[X]	[X]	[X]
Marketing (£'000)	[X]	[X]	[X]	[X]
Other overheads (£'000)	[X]	[X]	[X]	[X]
Operating profit (£'000)	[X]	[X]	[X]	[X]
Operating profit (%)	[X]	[X]	[X]	[X]
PBT (£'000)	[X]	[X]	[X]	[X]
PBT (%)	[X]	[X]	[X]	[X]
EBITDA (£'000)	[X]	[X]	[X]	[X]
EBITDA (%)	[X]	[X]	[X]	[X]
Total assets (£'000)	[X]	[X]	[X]	[X]
Net assets (£'000)	[X]	[X]	[X]	[X]

Source: Streetcar.

20. Cost of sales was [X].

*Streetcar forecast (prepared by Zipcar)*

21. As set out in Table 6, in addition to the forecast for the merged entity, a forecast for the Streetcar business as an independent entity was prepared by Zipcar when assessing the proposed acquisition price for the business. [X]

TABLE 6 Streetcar forecast to 2014 (projection by Zipcar of Streetcar as stand-alone entity)

<i>Streetcar Limited—overview forecast (stand-alone)</i>					
	<i>2010 Plan</i>	<i>2011 Plan</i>	<i>2012 Plan</i>	<i>2013 Plan</i>	<i>2014 Plan</i>
Members (at year-end)	[X]	[X]	[X]	[X]	[X]
Fleet (at year-end)	[X]	[X]	[X]	[X]	[X]
Revenue	[X]	[X]	[X]	[X]	£'000 [X]
Cost of fleet operations	[X]	[X]	[X]	[X]	[X]
Gross profit	[X]	[X]	[X]	[X]	[X]
Member services	[X]	[X]	[X]	[X]	[X]
Sales and marketing	[X]	[X]	[X]	[X]	[X]
Other operating costs	[X]	[X]	[X]	[X]	[X]
Total operating expenses	[X]	[X]	[X]	[X]	[X]
Net operating profit	[X]	[X]	[X]	[X]	[X]
Net interest and other expense	[X]	[X]	[X]	[X]	[X]
Net income	[X]	[X]	[X]	[X]	[X]

Source: Zipcar.

## Financial forecasts post-merger

22. The forecasts for the combined entity for 2010 are shown in Table 7 along with a comparison with the original stand-alone Zipcar (Table 1) and Streetcar (Table 5) plans.
23. In relation to this comparison we note the following points:
- (a) Streetcar's YTD trading performance indicates that its [X]; and
  - (b) [X], a [X] with Streetcar in April 2010 for the combined business [X]). We note that Streetcar has [X] in relation to the [X] in YTD 2010.
24. The main parties provided a [X] which took account of the following points in relation to the [X]:
- (a) it [X];
  - (b) it [X] of certain Streetcar overhead costs;
  - (c) it assumed that the Zipcar [X]; and

(d) it assumed that, consistent with Zipcar's experience of [REDACTED] (in particular, [REDACTED]—  
the merger would effectively [REDACTED]).

TABLE 7 P&L combined entity forecast for 2010—pre- and post-merger—comparison with original stand-alone forecasts

Version	<i>Start of due diligence</i>							
	Pre-merger	Original	Original	Original	Remove	SOP—Org	SOP—Org	SOP
Company	Streetcar	Streetcar	Zipcar	Combined	Streetcar	Streetcar	Zipcar	Combined
Time period	Full year	Full year	Full year	Full year	Jan–April	May–Dec	Full year	Mixed
Members (end of period)	[X]	[X]	[X]	[X]		[X]	[X]	[X]
Fleet (usable)—ending	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Revenue</i>								
Driving revenue (£)	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Fee revenue (£)	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Other revenue (£)	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<b>Total revenue (£)</b>	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Cost of sales</i>								
Cost of sales (£)	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Depreciation cost of sales (£)	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<b>Total cost of sales (£)</b>	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<b>Gross profit (£)</b>	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Gross profit (%)</i>	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Driving revenue/usable car (£)</i>	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Member services (£)	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Marketing (£)	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Sales (£)	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
General & administrative (£)	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Depreciation (£)	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Total operating expenses (£)	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<b>Net operating income (£)</b>	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Interest income (£)	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Other income/(expense) (£)	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<b>Net income/(loss) (£)</b>	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]

Source: Main parties.

Notes:

- 1/3 of Jan–April usable fleet removed (to annualize four-month effect).
- Streetcar corporate expenses included in all Streetcar projections.
- [X]

## Membership and fleet data

TABLE 1 Car clubs' membership and fleet data—December 2009

	<i>Fleet</i>	<i>Share of fleet %</i>	<i>Members</i>	<i>Share of members %</i>
Streetcar	[X]	[X]	[X]	[X]
Zipcar*	[X]	[X]	[X]	[X]
City Car Club	[X]	[X]	[X]	[X]
Connect by Hertz	[X]	[X]	[X]	[X]
Total main parties combined	[X]	[X]	[X]	[X]
Total all four car clubs	[X]	[X]	[X]	[X]

Source: Streetcar, Zipcar, City Car Club and Connect by Hertz.

\*Figures relate to usable fleet, not ending fleet.

TABLE 2 Car clubs' membership and fleet data—year to date 2010

	<i>Fleet</i>	<i>Share of fleet %</i>	<i>Members</i>	<i>Share of members %</i>
Streetcar	[X]	[X]	[X]	[X]
Zipcar	[X]	[X]	[X]	[X]
City Car Club	[X]	[X]	[X]	[X]
Connect by Hertz	[X]	[X]	[X]	[X]
Total main parties combined	[X]	[X]	[X]	[X]
Total all four car clubs	[X]	[X]	[X]	[X]

Source: Streetcar July 2010, Zipcar August 2010, City Car Club June 2010 and Connect by Hertz August 2010.

TABLE 3 Average number of cars and total vehicle share by borough

	<i>Average number of cars</i>				<i>Share of total vehicle numbers %</i>			
	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
<i>Barking and Dagenham</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Barnet</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Bexley</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Brent</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]

	Average number of cars				Share of total vehicle numbers %			
	2007	2008	2009	2010	2007	2008	2009	2010
<i>Bromley</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Camden</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>City of London</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Croydon</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Ealing</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Enfield</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Greenwich</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Hackney</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Hammersmith &amp; Fulham</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Haringey</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Harrow</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Havering</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]

	Average number of cars				Share of total vehicle numbers %			
	2007	2008	2009	2010	2007	2008	2009	2010
<i>Hillingdon</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Hounslow</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Islington</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Kensington &amp; Chelsea</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Kingston upon Thames</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Lambeth</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Lewisham</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Merton</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Newham</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Redbridge</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Richmond upon Thames</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Southwark</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]

	Average number of cars				Share of total vehicle numbers %			
	2007	2008	2009	2010	2007	2008	2009	2010
<i>Sutton</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Tower Hamlets</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Waltham Forest</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Wandsworth</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
<i>Westminster</i>								
SC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
ZC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
CCC	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Hertz	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]

Source: CC analysis using figures from Streetcar (SC), Zipcar (ZC), Hertz and City Car Club (CCC).

*Notes:*

1. Vehicle numbers are averages over the year and so may not result in whole figures (eg a car club that has no car in a borough for part of the year and then places one car will be recorded as having 0.5 vehicles).
2. SC: Averaged quarterly data. 2010 = Q1 2010 + Q2 2010.
3. ZC: Averaged monthly data; 2010 = Up to 07/2010.
4. CCC: Averaged quarterly data; 2010 = Q1 2010 + Q2 2010.
5. Hertz: Averaged quarterly data. 2010 = Up to 27 Aug 2010.

## Market definition additional evidence

### Product market

#### *Main party evidence—internal documents*

1. Internal documents and marketing materials from the main parties indicated a strategic focus on competition with other car clubs, particularly in relation to expanding their portfolio of parking bays but also in relation to setting subscriptions. We found the following evidence particularly compelling:
  - (a) Zipcar implemented a promotion targeted at customers of other car clubs by offering free membership to customers of other car clubs.
  - (b) Descriptions in a number of Zipcar board documents of the competitive landscape in London mentioned only other car clubs, and assessments of competitors' shares in four target boroughs analysed the shares of Streetcar, Zipcar, Connect by Hertz and City Car Club.
  - (c) Streetcar compared customer views of [REDACTED], and considered that [REDACTED]. When it later considered increasing the annual fee, Streetcar stated its ability to do so was 'severely constrained [REDACTED]'.  
[REDACTED]
  - (d) Competition was one of the three reasons discussed by Streetcar for absorbing the Congestion Charge. Streetcar noted that [REDACTED].  
[REDACTED]
  - (e) Streetcar responded to Zipcar's winning of Westminster City Council's on-street parking contract in 2009 by acquiring additional off-street car spaces in Westminster [REDACTED].  
[REDACTED]
  - (f) Streetcar's business plan stated: [REDACTED].  
[REDACTED]
2. The main parties pointed out examples of documentary evidence which they submitted showed competition from other transport options and which supported their argument that car clubs faced wider competitive constraints from car rental, public transport, car ownership and taxis. These included:  
[REDACTED]

- (a) Zipcar's board materials which referred to the effects on its business from the rental sector, including a Zipcar study supported by [REDACTED];
  - (b) documents prepared for Streetcar's board which referred to the pricing of car rental firms;
  - (c) Streetcar's initial business plan of June 2003 and its marketing plan of January 2004 which mentioned constraints from other modes of transport; and
  - (d) surveys carried out for and on behalf of the main parties which showed that consumers used other modes of transport.
3. The main parties also referred to two promotions which Streetcar had run, both of which were targeted at winning new members rather than the existing members of other car clubs. The first promotion, entitled 'Car crunch', which started in January 2009 and is still ongoing, offered £200 driving credit to new members for giving up their privately-owned car. The second was a scheme designed to take advantage of the 2010 autumn Underground strike, whereby Streetcar promoted its special £20 overnight rates prior to the industrial action with a view to attracting customers who otherwise would have used public transport. [REDACTED]

***Main party evidence—critical loss analysis***

4. The main parties submitted a critical loss analysis which considered the potential price effects from a hypothetical merger to monopoly among suppliers of car club services. They claimed that this analysis showed that even a merger to monopoly would not make a 5 per cent price increase profitable. If correct:
- (a) this analysis might suggest that the price effect from the merger between Streetcar and Zipcar would be significantly below 5 per cent;
  - (b) it might indicate that car club services did not comprise a relevant market (see the Guidelines, paragraphs [5.2.9](#) to [5.2.16](#)).

5. However, we noted that the main parties' model failed a basic consistency test. An important check on any model that attempts to predict what might happen in hypothetical circumstances is that it is able to predict what we observe in the circumstances that actually prevail. The main parties' model suggests that they could profitably cut prices pre-merger. The fact that the main parties did not do so suggests that the model omits important considerations affecting the profitability of price changes.
  
6. We carried out consistency tests that involved checking that the data used to calculate the critical loss that would make a price rise unprofitable was consistent with the data used to estimate the actual loss the hypothetical monopolist would suffer if it raised prices. The importance of this consistency test is underlined in the revised US merger guidelines which state that:

The [US] Agencies require that estimates of the predicted loss be consistent with [all the] evidence, including the pre-merger margins of products in the candidate market used to calculate the critical loss.<sup>1</sup>
  
7. If we recalibrate the main parties' model so that the data is consistent and it no longer predicts price changes pre-merger then the results change: the model predicts that a 5 per cent price rise *would* be profitable if there were a hypothetical merger of all car club suppliers.
  
8. We considered that the analysis using consistent data still understated the potential price effect from a hypothetical merger to monopoly, and so understated the ceiling on the potential price effect from a merger of Streetcar and Zipcar. The main reason

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<sup>1</sup>US Horizontal Merger Guidelines, section 4.1.3, p12, [www.ftc.gov/os/2010/08/100819hmg.pdf](http://www.ftc.gov/os/2010/08/100819hmg.pdf).

for such inconsistency is that the main parties' estimate of elasticity was not consistent with their estimate of margins.

### *Commentary on the main parties' analysis*

9. The key data on which the main parties base their analysis of the potential for price increases following a hypothetical merger to monopoly is as follows:

(a) Recapture rate [X] per cent<sup>2</sup>

(b) Margin [X] per cent<sup>3</sup>

(c) Own-price elasticity [X]<sup>4</sup>

### *The main parties' analysis*

10. The main parties use the data on the margin to calculate the loss of sales to alternatives outside the market that would make a 5 per cent price increase of all car club services unprofitable to the hypothetical monopolist. They use the standard formula for this critical loss.<sup>5</sup>

$$\text{Critical loss} = \frac{\text{price rise}}{\text{price rise} + \text{margin}} = \frac{5\%}{5\% + [X]\%} = [X]\%$$

11. The main parties then compare this critical loss with the actual loss to alternatives outside the market that the hypothetical monopolist would suffer. They estimate the actual loss using the data on the own-price elasticity and the recapture rate.<sup>6</sup>

$$\begin{aligned} \text{Actual loss} &= \text{own price elasticity} \times (1 - \text{Recapture rate}) \times \text{price rise} \\ &= [X] \times [X]\% \times 5\% = [X]\% \end{aligned}$$

---

<sup>2</sup>Derived from the main parties' data as  $1 - (\text{own-price elasticity} / \text{car share elasticity})$ .

<sup>3</sup>Assumed by the main parties.

<sup>4</sup>We understand that the main parties derived their estimate of elasticity from the [CC survey](#) responses to Q31, Q34 and Q36.

<sup>5</sup>See, for example, Joseph Farrell & Carl Shapiro, *Improving Critical Loss Analysis*, ANTITRUST SOURCE, February 2008.

<sup>6</sup>We note that the main parties do not present this data exactly in this form but rather as elasticity of the car sharing market x price rise. We used the main parties' data on own-price elasticity to derive the recapture rate (see the footnote to paragraph 9).

12. Since the actual loss would be greater than the critical loss, the main parties infer that the price would not be profitable.

*Checking the consistency of the data*

13. We found that data used by the main parties was mutually inconsistent. To test consistency, we used the same data that the main parties used in their critical loss analysis and assessed whether a 5 per cent price cut by either of the main parties acting unilaterally pre-merger would be profitable.

14. The critical gain in sales needed to make a price cut profitable is given by:

$$\text{Critical gain} = \frac{\text{price rise}}{\text{margin}} = \frac{5\%}{[\%]} = [\%]\%$$

15. The actual gain in sales is given by:

$$\begin{aligned} \text{Actual gain} &= \text{Own price elasticity} \times \text{price rise} \\ &= [\%] \times 5\% = [\%]\% \end{aligned}$$

16. Since the actual gain is greater than the critical gain, the data used by the main parties suggests that unilateral price cuts would be profitable pre-merger.

17. Consistency in the data is achieved when the estimates used for the own-price elasticity are equal to the inverse of the margin:

$$\text{Own price elasticity} = \frac{1}{\text{margin}}$$

18. Finally, the main parties submitted that the inconsistencies we identified in fact arose from our own analysis rather than from their analysis, in particular our estimate of the variable margin of [%] per cent. We disagree. The inconsistency arose because the main parties did not apply the Lerner condition to the calculation of the critical loss.

Irrespective of the margins (or elasticities) the main parties chose to use for their critical loss analysis, they needed to ensure this basic consistency.

*Critical loss analysis using consistent data*

19. We repeated the main parties’ calculations using consistent data. We used three alternative sets of data. The first used the main parties’ estimate of the own-price elasticity and derived a consistent estimate of the margin from this. The second used the main parties’ estimate of the correct level of margin,<sup>7</sup> and derived a consistent estimate of the own-price elasticity from this. The third used the main parties’ estimate margin used for the purposes of calculating the critical loss, and derived a consistent estimate of the own-price elasticity from this. We calculated the critical loss and actual loss for all three options using the formulae corresponding to the formulae used by the main parties. We found that in all three cases, the actual loss was lower than the critical loss which was consistent with a narrow market definition comprising only car clubs.

TABLE 1 **Critical loss analysis**

	<i>Option 1</i>	<i>Option 2</i>	<i>Option 3</i>
Price increase (%)	5	5	5
Recapture rate (%)	[REDACTED]	[REDACTED]	[REDACTED]
Margin (%)	[REDACTED]	[REDACTED]	[REDACTED]
Own-price elasticity	[REDACTED]	[REDACTED]	[REDACTED]
Critical loss (%)	[REDACTED]	[REDACTED]	[REDACTED]
Actual loss (%)	[REDACTED]	[REDACTED]	[REDACTED]

Source: CC calculations, the main parties’ data and margin assumptions.

20. The main parties argued that the actual loss was lower than the critical loss by only a small amount and that such narrow failing of the critical loss test should not be taken as conclusive evidence of a narrow market. We note that (i) the critical loss analysis did point towards a narrow market and (ii) the critical loss analysis is just one piece of evidence we considered in relation to market definition, and we considered all the evidence in the round.

<sup>7</sup>We discuss this margin in more detail in Appendix H.

21. The main parties further discussed the derivation of the market elasticity of demand and its relationship with the margins. We consider this issue in Appendix H when discussing our margin and diversion ratio analysis.

### ***Third party evidence***

22. Comments made by other car clubs indicated the importance of competition between car clubs. We found the following evidence particularly compelling:
- (a) City Car Club adapted its offering to respond to car clubs in the following ways:
- (i) it introduced vans in response Streetcar offering vans;
  - (ii) it carried out promotional offers to members of other car clubs in response to Zipcar introducing a similar offer;
  - (iii) it replaced a £75 joining fee with an annual membership charge of £50; and
  - (iv) it halved the congestion charge to members following Zipcar's decision not pass this cost on to its members.
- (b) City Car Club told us that there were 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 Streetcar appeared to react to Zipcar winning the contract for on-street parking in Westminster by considerably increasing its fleet size in Westminster using off-street parking before Zipcar could launch its service. It also told us about occasions when changes in Zipcar's retail offer aligned Zipcar's offer more closely with that of Streetcar (eg the introduction of Volkswagen vehicles in Zipcar's fleet).
23. The main parties told us that we had not given due weight to evidence from Hertz, which considered that its customers would switch away from Connect by Hertz to public transport following a 5 per cent price increase. However, Hertz subsequently clarified that it expected car club members to switch to alternative car clubs in response to a 5 per cent price rise. Hertz said that if there were no competing car

club in the area, then in response to a greater than 10 per cent increase in price, a certain number of people would use public transport instead or would consider purchasing a car in the medium term.

## **Geographic market**

### ***Main party evidence—internal documents***

24. The main parties stated that:

(a) the geographic market was national as they competed with car rental businesses which operated on a national basis;

(b) entry strategies adopted by suppliers of car club services tended to proceed on a borough-by-borough basis. This also reflected the basis on which on-street parking access was available.<sup>8</sup> However, the main parties later submitted that

(i) the borough-wide dimension to the market concerned only the allocation of on-street parking spaces; (ii) being active in a borough did not necessarily mean being active across the whole borough; and (iii) [REDACTED];

(c) from a consumer's perspective, the decision about which transport option to take was made locally. Car club members would generally walk approximately 10–20 minutes to collect their vehicle;<sup>9</sup> and

(d) strategic decisions such as pricing structure are taken at city level.

25. Streetcar told us that:

(a) its pricing decisions were taken at company-wide level, one key reason for which being the need for a simple pricing structure to provide transparency to consumers. Streetcar further submitted that neither of the main parties introduced any form of local variation to their pricing structures or levels. Occasionally,

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<sup>8</sup>The main parties later submitted that a large amount of off-street parking was available across all areas of London, and these spaces were not taken on a per-borough basis.

<sup>9</sup>The main parties further submitted that customers also travelled to car rental depots and to alternative modes of public transport.

Streetcar had reduced membership fee for a limited period via advertising in campaigns in local newspapers;

- (b) in terms of performance, it always compared any area in London against [REDACTED], while a city outside of London was compared against the average figures of [REDACTED]. This comparison was done using Streetcar Expansion Tool (SET). SET was created in 2008 to enable Streetcar to analyse areas outside of the current network of locations to predict the success of the Streetcar concept in that area;
- (c) its 2007 survey found that the location and convenience of the vehicle was very important. Ideally the car would need to be less than 5 minutes' walk and anything more than 10 minutes away was less appealing;
- (d) its commissioned research suggested that [REDACTED] per cent of customers valued the convenience of Streetcar locations to their home, [REDACTED] per cent valued the ease of using Streetcar and [REDACTED] per cent valued the simplicity of using Streetcar; and
- (e) it discussed expansion in London on a [REDACTED] and outside London on [REDACTED], as shown in its board papers. Board papers also discussed Streetcar's desire to [REDACTED].

26. Zipcar told us that:

- (a) [REDACTED];
- (b) one of its criteria for selecting new locations was for a vehicle to be within 5–10 minutes' walk of a member's home or place of work; and
- (c) Zipcar's board papers suggested that Zipcar should focus its business on the following zones: [REDACTED].

### ***Third party evidence***

27. Third parties provided us with the following evidence:

- (a) Greenwheels considered that first movers had an advantage by being able to build up a dense network of cars before any other entrant, as when deciding to to

join a car club consumers considered the car closest to them and the distance to the next car if that one were unavailable. New joiners also took account of the spread of the network of a given operator.

- (b) City Car Club told us that it set the same hourly rental price for any time of day or week across all UK cities where it operated as it was important to keep prices simple with a view to maximizing new membership.
- (c) City Car Club also told us that members generally preferred to walk no more than 10 minutes to access a car and would not walk further even if it meant accessing a cheaper car (City Car Club also noted that members would not consider the use of public transport to get to a car). Further, within the area covered by a 10-minute walk, customers would prefer the operator that was located, for example, 2 minutes away from them over the one that was located 10 minutes away.
- (d) Hertz told us that Connect by Hertz charged the same price across different London boroughs, although noted that boroughs where Connect by Hertz competed with other car club operators were more price sensitive.
- (e) Hertz told us that the most important dimension on which car clubs competed with each other was the convenience of parking bays.

## Counterfactual supporting evidence

### Access to debt and equity finance—existing and forecast

#### *Streetcar's view*

1. Streetcar told us that, [REDACTED].
2. Streetcar told us that [REDACTED].

#### *Zipcar's view*

3. Zipcar noted in its pre-merger board papers [REDACTED].

FIGURE 1a

#### **Zipcar's view of Streetcar's existing asset backed finance facilities (‘lease line availability’)**

[REDACTED]

Source: Zipcar.

FIGURE 1b

#### **Zipcar's view of Streetcar's potential asset-backed finance facilities**

[REDACTED]

Source: Zipcar.

4. With regard to the potential asset-backed finance facilities set out in Figure 1b, Streetcar's December 2009 board minutes stated that [REDACTED].
5. Streetcar told us that it declined the facility offered by [REDACTED].
6. Streetcar also noted that [REDACTED].

7. We held discussions with each of Streetcar's financiers to ascertain their rationale for their original investment in Streetcar, their intentions regarding renewal of their facilities pre-merger and the impact (if any) of the merger on these intentions.

### **Discussions with existing financiers**

[✂]

8. [✂]

9. [✂]

10. [✂]

11. [✂]

12. [✂]

13. [✂]

14. [✂]

15. [✂]

16. [✂]

17. [✂]

18. [✂]

19. [✂]

20. [✂]

[✂]

21. [✂]

22. [✂]

23. [✂]

24. [✂]

[✂]

25. [✂]

26. [✂]

27. [✂]<sup>1</sup>

28. [✂]

29. [✂]

30. [✂]

*Smedvig*

31. Smedvig is a London-based private equity firm, founded in 1996. It told us that its investment style was very involved, with a typical direct investment involving taking a

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<sup>1</sup>[✂]

board role. It told us that Streetcar was a typical investment of about the right size (initial investment of £[REDACTED]), with competent existing management and an interesting market opportunity.

32. [REDACTED]

33. [REDACTED]

34. [REDACTED]

35. [REDACTED]

36. If Streetcar had not been purchased by Zipcar, Smedvig told us that it would have concentrated on maintaining growth in the business by looking at expansion into other regional and potentially other European cities. If Streetcar continued to be unprofitable, it would also have reviewed Streetcar's pricing structure with a view to increasing the pricing in a way that captured more of the 'option value' of having an available car, given that, once customers joined, they tended to use a car less and used buses, cabs, the Underground, walking, sharing, etc more than when they owned a car.

37. Smedvig said [REDACTED]. Absent the Zipcar acquisition, Smedvig would have been considering a trade exit at some point, although this would not necessarily have been in the next year.

## Theory of harm 1: Loss of competition for members—additional qualitative evidence

### Retail offer

#### *Main party evidence*

1. Streetcar told us that its research suggested that consumers most valued convenience. A survey it had commissioned showed that [redacted] per cent of customers valued the convenience of Streetcar locations to their home, [redacted] per cent valued the ease of use and [redacted] per cent valued the simplicity of use ([redacted] per cent rated the value for money for short journeys and [redacted] per cent valued the quality of vehicles).
2. Streetcar said that when choosing a car club, potential members considered the vehicle in or nearest to their preferred location and their second best option in case the former was unavailable. After joining, proximity was replaced by availability (ie whether the desired vehicle was available when needed). Both proximity and availability were underpinned by prices which were essential for potential members and for existing members who determined whether to remain members based on their usage and corresponding prices. Consumers also valued the environmental merits of being a car club member.
3. Zipcar told us that its own survey of members in Boston and Washington DC suggested [redacted].
4. Zipcar's and Streetcar's internal documents suggested that they considered a number of aspects of competition to be important.
5. A Zipcar board presentation from December 2008 referred to the need to 'consolidate' the London market as one of the reasons for buying Streetcar, while one from

February the same year talked about first-mover advantage in the context of expansion into Europe and the importance of being 'number one' in each market, a position which Zipcar was willing to achieve through the use of merger and acquisition.

6. The December 2008 presentation mentioned [REDACTED] as Zipcar's key competitive response to the entry of Connect by Hertz in New York and as a response to competitive pressures in San Francisco; in [REDACTED] Zipcar [REDACTED] for [REDACTED]. Similarly, Zipcar's response to Connect by Hertz' expansion in Washington DC was to try and [REDACTED] from universities and to [REDACTED].<sup>1,2</sup>
7. [REDACTED] TfL was promoting multi-operator on-street parking allocation policies Streetcar suggested [REDACTED].<sup>3</sup>
8. We note that the evidence quoted above came from a period between 2007 and 2010 with most of the evidence coming from before 2009. The main parties told us that their views had since evolved.

### ***Third party evidence***

9. TfL told us that cost and availability was important when consumers were deciding whether to join a car club. TfL commissioned research which suggested that the main reasons for joining car clubs were that they were cheaper than car ownership, more

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<sup>1</sup>[REDACTED] Zipcar stated that our representation of this comment was therefore inaccurate. We note that we simply reproduced Zipcar's statements as they appeared in the relevant source documents with Zipcar's interpretation supplied at a later date, ie during our inquiry.

<sup>2</sup>Zipcar told us that our assessment was incorrect as it relied on a selection of documents from different years. We note that, to our knowledge, there is no other information contained in the internal documents of Zipcar relevant to this point. [REDACTED] We note that we made no such implication beyond a finding that the [REDACTED] appears to be an important aspect of competition for Zipcar.

<sup>3</sup>[REDACTED]

environmentally friendly than owning a car, convenient to use in London, and help reduced congestion.<sup>4</sup>

10. Carplus, told us that the proximity of vehicles to members was important.
11. Greenwheels, which has a 70 per cent share of the car club market in Amsterdam, told us that car clubs competed with one another primarily on the basis of their parking location networks. When consumers made a decision to join a car club, they considered which vehicle was closest to them, and the distance to the next vehicle if this were unavailable. Competition only occurred when different providers had a bay at approximately the same walking distance from the relevant consumers.
12. Although the location of vehicles and the density of the car network were the most important aspect of the retail offer, Greenwheels said that price still mattered and was affected by vehicle availability. Large car clubs could charge higher prices since their larger and denser vehicle networks resulted in better availability (ie members were more likely to find a vehicle available when they needed one) whereas smaller car clubs, which could not offer the same likelihood of vehicle availability within a convenient walking distance, had to offer a lower price to be able to compete.
13. City Car Club told us that its members valued, in order of importance:
  - (a) the location of vehicles;
  - (b) the convenience of the service compared with car ownership;
  - (c) the low price of the service especially when compared with car ownership;
  - (d) strong customer service, good availability of vehicles;
  - (e) reliability of vehicles and service; and
  - (f) the environmental benefits compared with car ownership.

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<sup>4</sup>Attitudes towards Car Clubs', Synnovate research prepared for TfL, submitted by TfL to the CC.

14. City Car Club currently sets the same hourly rental price for any time of day or week across all UK cities where it operates in order to keep prices simple with a view to maximizing new membership. It took the pricing of its car club competitors into consideration but noted that, because it operated a national service, it did not have the same need to respond to competitors' pricing (compared with Zipcar and Streetcar which operated solely or primarily in London). Further, City Car Club considered that the relatively new car club sector was not yet very price sensitive when compared with other markets. A 10 per cent price increase by another car club would not be enough for City Car Club to consider changing its current pricing plan, although if a major competitor increased prices by 20 per cent City Car Club would rethink but would not necessarily follow suit. City Car Club noted that it considered current car club pricing to be low and expected price increases to be inevitable in the coming years.
  
15. Hertz told us that Connect by Hertz's members valued, in order of importance:
  - (a) convenience;
  - (b) type of vehicles; and
  - (c) the association with Hertz.
  
16. Hertz suggested that car clubs competed with each other on convenience of the parking bay, price, availability of vehicles, type of vehicle, and in-car remote service support.

## **Competition between car clubs**

### ***Main party evidence***

17. The main parties told us that rivalry between car clubs did not drive competition and that car clubs were not particularly close competitors. The greatest economic pay-off for car clubs was in converting the users of other transport options to the car club

concept, rather than winning customers of other car clubs. Therefore, according to the main parties, the simple pricing model used by car club companies was aimed at winning customers from other forms of transport as opposed to winning an individual trip from another car club company.

18. Further, the main parties said that there was only very limited evidence of switching between the main parties. Streetcar's 2010 exit survey suggested that only around 1 per cent of its customers left it to join another car club. The main parties noted that assuming that customers were members of more than one car club was flawed, pointing to the fact that only 1 per cent of the main parties' customers were members of both Zipcar and Streetcar.
19. The main parties stated that [REDACTED]. They suggested that this meant members substituted other modes of transport for car club use and that the main parties needed to focus on winning enough new members to sustain and grow their business and to achieve profitability.
20. The main parties further suggested that if they had been each other's closest competitors, Zipcar's entry would have affected Streetcar's growth, whereas Streetcar was able to attract an increasing number of new members following Zipcar's entry in 2007. In particular, at the end of August 2007 Streetcar attracted [REDACTED] to [REDACTED] new members per week in the [REDACTED] boroughs in which Zipcar was active, compared to around [REDACTED] members per week prior to Zipcar's entry. Streetcar considered that Zipcar's entry had raised awareness of the car club concept and prompted wider switching from other modes of transport to car clubs.
21. Further, the main parties submitted that Zipcar's promotional offer of free membership to other car club members, targeted at customers of other car clubs between

May 2008 and July 2010, would have been more successful had the main parties been each other's closest competitors. However, the promotion was responsible for only 5 per cent of new members.

22. Streetcar told us that the only time it responded to a change in offer by another car club was when Zipcar won the Westminster tender in 2009. Streetcar was already planning on expanding quickly in Westminster, and, as a result of losing the tender was able to achieve this expansion even more rapidly by securing a number of readily available off-street spaces in the borough thereby remaining the largest operator both in terms of vehicles and members. Streetcar stated, however, that the overall outcome in terms of its fleet size and the timing of its expansion would have been broadly the same regardless of Zipcar winning the tender.
  
23. Streetcar submitted a graph of its car usage and membership trends, which it suggested showed that neither was affected by a major price change by Zipcar. Further, Streetcar said that its own pricing strategies did not indicate close competition with Zipcar as Streetcar had increased its prices in 2008 shortly after Zipcar entered. According to Streetcar, its investment in its vehicle fleet was not affected by Zipcar's entry either, and it produced a graph showing an increasing trend in the number of vehicles in the boroughs facing Zipcar's entry.
  
24. Zipcar's board documents made a number of statements regarding competition with other car clubs:
  - (a) A board presentation in February 2008 noted Streetcar's relative position in London and reviewed car clubs in Europe stating: 'Next 12 to 24 months important for first mover advantage'.
  - (b) In a board presentation in July 2009 Zipcar specifically noted Streetcar's and Hertz's performance.

- (c) Board presentations in January, February and December 2009 described the competitive landscape in London and mentioned only other car clubs. The presentation in December 2009 also assessed competitors' shares in four target boroughs by analysing Streetcar, Zipcar, Connect by Hertz and City Car Club.
- (d) The December 2009 presentation also noted the launch of Connect by Hertz in New York and in London.

25. Streetcar's board documents also made a number of statements regarding competition with other car clubs:

(a) [REDACTED]

(b) A [REDACTED] in December 2007 [REDACTED] of [REDACTED], [REDACTED] and [REDACTED] and stated: 'If [REDACTED] is to [REDACTED] will [REDACTED].'<sup>5</sup>

(c) Board minutes from April 2009 record that Streetcar discussed three reasons, including competition, [REDACTED].

(d) The price change proposal for November 2009 stated: '[Streetcar's] ability to increase the annual fee is severely constrained [REDACTED]. Streetcar subsequently noted that, despite these concerns, it implemented the price increases which resulted in customer losses. However, this price change coincided with major seasonal changes in membership and Streetcar said that it was therefore impossible to ascertain the impact of the price amendment.

(e) Board minutes from September 2007 discussed City Car Club's attempt to raise additional financing.

(f) [REDACTED]

(g) [REDACTED]

(h) [REDACTED]

(i) [REDACTED]

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<sup>5</sup>Streetcar argued that it nonetheless [REDACTED] and it could not therefore have been the case that it was [REDACTED]. However, we considered that the fact that [REDACTED].

(j) Prior to its launch, Streetcar prepared a business plan in 2003 [REDACTED].

***Evidence from third parties***

26. City Car Club said that it had adapted its offering to respond to competing car clubs, for example it:
- (a) introduced vans to respond to Streetcar offering vans;
  - (b) carried out promotional offers to members of other car clubs to respond to Zipcar introducing a similar offer (City Car Club offers free annual membership for the first year to the existing members of other car clubs);
  - (c) replaced a £75 joining fee with an annual membership charge of £50; and
  - (d) halved the congestion charge to members following Zipcar's decision not to pass this cost onto its members (City Car Club mentioned that Streetcar appeared to follow Zipcar in not passing on the congestion charge).
27. City Car Club also told us that Zipcar matched Streetcar's offer of vehicles by putting Volkswagens into their fleet as customers may have favoured Streetcar over Zipcar because of this vehicle type. Conversely, Streetcar reacted to Zipcar winning the contract for on-street parking in Westminster by considerably increasing its fleet size in Westminster before Zipcar could launch its services there. City Car Club further told us that this expansion could only have been a defence mechanism or a pre-emptive response because such expansion would have been 'hugely' expensive for Streetcar.
28. City Car Club said that there were two possible business models for car clubs, dependent on the level of finance available. Streetcar, with a large amount of financial backing, had chosen to advertise heavily to attract a high number of new members. This was necessary to support its aggressive vehicle roll-out but would attract a large number of customers who would only rarely use car club services. This

would result in a higher churn rate and lower utilization than City Car Club, which had chosen a more organic growth model due to its lower financing.

## **Competition from other transport options**

### ***Evidence from main parties***

29. [REDACTED]

30. [REDACTED]

31. [REDACTED]

32. [REDACTED] was mentioned as the [REDACTED] in a marketing plan drawn up in January 2004.

However, we noted that the plan went on to state that [REDACTED] suffered from two key drawbacks—that consumers had to travel to a depot to pick up a car and had to book well in advance.<sup>6</sup>

33. Streetcar submitted that it monitored car rental companies and that it compared its day rental prices with the day rental prices of car rental companies at all points of its service offering (ie hourly, multi-hourly, daily and multi-daily). A number of Streetcar's internal documents discussed Streetcar's prices with reference to those of car rental companies including:

(a) A board paper in 2007 stated [REDACTED].

(b) A 2009 internal pricing document compared Streetcar's prices against the car rental companies Hertz and Sixt while a pricing document from 2008 stated that the 'day rate is a key benchmark for prospective members considering joining',

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<sup>6</sup>Streetcar told us that our interpretation was inaccurate. Streetcar argued that its statement of differences between its own business and [REDACTED] did not diminish its view that [REDACTED] represented 'the greatest potential threat to Streetcar'. However, we considered that it remained relevant that Streetcar had highlighted that [REDACTED] was an imperfect substitute to Streetcar.

that '[c]ar rental firms have headline rates much lower than [Streetcar's day rates]' and that [REDACTED].

(c) The 2009 Long Booking Review noted that: 'A direct comparison between Streetcar's rates and car rental competitors shows [REDACTED], Streetcar is [REDACTED].

(d) [REDACTED]

(e) [REDACTED]

34. Streetcar also submitted evidence that it considered other modes of transport as competitive constraints. [REDACTED]<sup>7</sup>

35. Zipcar also submitted evidence that it monitored car rental companies and considered competitive constraints from other forms of transport. Its 2008 pricing review considered two options for London which took into account Zipcar's New York summer pricing, Streetcar and the car rental company Enterprise while the 2009 pricing review compared Zipcar's prices with other car club operators and the car rental companies Hertz and Enterprise. A board presentation in December 2008 compared day rental prices from [REDACTED]. A summary of a Zipcar study (conducted with support from [REDACTED]) which considered car rental costs [REDACTED] was presented to Zipcar's board [REDACTED].

### ***Third party evidence***

36. Research commissioned by TfL showed that the main journey types for which car clubs were used were:

(a) excursions or weekends away;

(b) non-grocery shopping;

(c) grocery shopping;

(d) visiting friends and relatives; and

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<sup>7</sup>[REDACTED]

(e) picking people up from stations and airports.

37. TfL's research also found that 93 per cent of non-car club members used a car on a weekly basis or more often. After consumers joined a car club, this fell to 37 per cent and often to 25 per cent. Similarly, 64 per cent of non-members used public transport weekly or more often, as opposed to 93 per cent of new car club members.
38. TfL stated that car clubs were a sufficiently different form of transport that formed part of a continuum of transport options that were suitable for different types and durations of journey. Car clubs were different from public transport and taxis in that public transport and taxis allowed for one-way travel, while car clubs involved two-way travel as consumers needed to return the car to where they took it from. TfL further explained that car clubs operated best in cities with valid alternatives to car ownership. For that reason, inner London was the most active car club market.
39. Carplus stated that the main competition to a car club was car ownership and that car clubs provided a flexible alternative to car ownership.
40. According to Greenwheels, car clubs were designed to 'fill the gap' between taxi and car rental, not to replace them. Taxis and car rental were not suitable for journeys exceeding 15 minutes but less than a few days. Taxis provided very limited car mobility and car rental did not cater for spontaneous rental 24/7, and was not widely available in residential areas.
41. Greenwheels considered that car rental and taxis supplemented car clubs and together created a range of options for obtaining access to a car. Car clubs were the 'missing link' which in combination with taxis, car rental and public transport enabled all these different transport methods to become a viable alternative to car ownership.

Greenwheels demonstrated the point that car clubs supplemented car rental by noting that Europcar advertised Greenwheels on its Dutch website.

42. Mobility considered that car ownership was the main competitor to car clubs. Public transport and car clubs complemented each other, however, Mobility added that it considered the car club market to be influenced by and connected with public transport and car rental.
43. Avancar told us that car clubs needed to find a niche between a whole range of customer mobility solutions and that the main constraint on car clubs was not competing car clubs but private car ownership and car rental.
44. Addison Lee told us that there was a difference between the kind of consumers who used its services and those who used car clubs or public transport. Customers used minicabs because they liked personal space (which public transport did not offer) and because they did not like driving in London (which the use of car clubs required). Addison Lee said that the longer the journey, the more economical it became for consumers to use car clubs rather than minicabs.<sup>8</sup> However, Addison Lee further told us that it did not compare its prices with car clubs and considered that its main competitors were other minicabs and then black cabs.
45. [X], a car rental broker, told us that the car club sector had no visible impact on its business. It considered online car rental providers and offline car rental providers to be its main competitors.
46. While City Car Club stated that car clubs competed principally with private car ownership, it told us that its closest competitors were Streetcar, Zipcar and Connect

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<sup>8</sup>Addison Lee said that it competed with car clubs for pre-booked (where a booking was made 20 minutes or more from the time of the journey) medium- and longer-distance work.

by Hertz (although only 4 per cent of its members in London left to join another car club).<sup>9</sup> City Car Club monitored their offerings, visited their websites periodically, set up Google alerts, viewed parking bays when passing, attended car club events and listened to the views of members of other car clubs who joined its services.

47. Hertz said that the emergence of car clubs had had no noticeable effect on its traditional car rental business and that it had lost no revenue to car clubs. It considered that the main competitors to its car rental business were the other [redacted] car rental companies ([redacted]) and other local car rental competitors. Hertz noted that it responded to the emergence of car clubs by setting up its own car club service, Connect by Hertz. It had not, however, changed its traditional rental offering in reaction to car clubs (its 3-6-9 service, for example, which allowed customers to rent a car for periods less than a day with three tariffs for travel up to 3, 6 or 9 hours, was launched to compete with the provision of traditional car rental on an hourly basis by one of its car rental competitors).
48. Hertz said that the main competitors to the Connect by Hertz car club business were other car clubs present in London (Streetcar, Zipcar and City Car Club, in order of importance) and that Connect by Hertz monitored the prices of these companies along with community car clubs and other car club providers and responded to the changes in their offer. Connect by Hertz would generally follow any price increase by Zipcar and Streetcar in order to improve its own profitability. It was possible, however, that following a [redacted] per cent price increase by the main parties, Connect by Hertz might decide to [redacted].
49. Hertz stated that it expected car club members to switch to alternative car clubs in response to a 5 per cent price rise. Hertz said that if there were no competing car

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<sup>9</sup>98 out of 2298 of its leaving members.

club in the area, then in response to a greater than 10 per cent increase in price a certain number of people would use public transport instead or would consider purchasing a car in the medium term.<sup>10</sup>

50. Hertz considered that there were fundamental differences between car rental and car club businesses. Car rental operated over the counter from a small number of bricks-and-mortar premises. Consumers needed their driving licence and had to complete paperwork every time they rented a car. The average length of car rental was [redacted] days increasing to [redacted] in the summer. Conversely, car club vehicles were located more conveniently and were spread across the city. Consumers signed up online and were subsequently 'validated' by the Connect by Hertz call centre, after which they booked their cars online and accessed them using keyless card-based technology. Only very few car club rentals went over one day (generally at weekends when it offered a special rate).
51. [redacted], a car rental company, named the other 'big five' car rental companies as its main competitors (Enterprise, Europcar, Avis, Hertz and Thrifty, in this order) and stated that the emergence of car clubs had had a small effect on its business, although it considered that this might increase in time. [redacted] was not aware of losing any revenue to car clubs and had not made any changes to its marketing or service in response to car clubs as it considered daily car rental to be a slightly different market.
52. Avis named the other 'big five' car rental companies as its main competitors (Europcar, Hertz, Enterprise, Sixt and Thrifty, [redacted]) and stated that the emergence of car clubs had only a very marginal, if any, impact on its revenue. Avis also told us that it had not made any changes to its marketing or service in response to car clubs

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<sup>10</sup>The main parties argued that fewer than 1,000 members out of a total of more than 100,000 were members of both Streetcar and Zipcar.

as it viewed them to be in an adjacent market rather than a direct competitor. Avis thought that taxis, car ownership, public transport, City Car Club, Zipcar, Whipcar competed against car clubs (in that order) and that car clubs were a replacement for public transport and car ownership.

53. Avis further suggested that the London car rental market was mainly focused on weekend trade and that consumers chose car rental on an opportunistic basis (for example, on a sunny weekend a consumer might think to rent a car to go for a spontaneous trip rather than sign up to a car club).
54. Enterprise told us that car clubs did not pose a significant constraint on its business and did not influence its pricing. Enterprise explained that although both car rental and car clubs offered car-based services, these services were very different and it believed that car clubs competed with taxis and public transport.
55. Enterprise said that car clubs were not on its 'radar screen' since it did not operate in the car club market. Enterprise clarified that it had offered a car-sharing programme in Woking since February 2010 which used two vehicles and acquired 65 members. However, Enterprise considered the size of this operation to be too small to be material and noted that it was only a trial. Enterprise operated car clubs in the USA but its model was different to UK car clubs as it focused mainly on partnerships with universities and to some extent corporate campuses and municipalities.
56. Peugeot stated that other means of transport provided a viable alternative to car club services.
57. Finally, local authorities submitted various statements regarding other transport options available to car club members, either instead of joining a car club or on a

journey-by-journey basis. We considered, however, that these were mostly general statements about alternative ways of travelling rather than reflecting local authorities' conclusions that these other transport options were economic substitutes for car clubs.

## **Scope for discrimination**

### ***Main party evidence***

58. The main parties told us that:
- (a) the market context did not vary materially depending on whether one was considering the demand function of a business or private customer; and
  - (b) the simple pricing model used by car clubs meant that prices to existing customers were driven by the competition to win more customers away from other forms of transport.
59. Streetcar told us that customers could be segmented into the following categories:
- (a) heavy user/light user;
  - (b) short (up to a day)/medium (one to three days)/long (journeys over three days);
  - (c) vehicle preference;
  - (d) currently own car/currently don't own car;
  - (e) previously owned car/previously didn't own car; and
  - (f) weekday user/weekend user.
60. Zipcar further told us that:
- (a) the demand for car clubs was higher during the day than at night, during weekends than during the week, and at times of year associated with holiday travel (for example, summer or major public holidays);

- (b) customers could be classified as using Zipcar for personal tasks ([redacted] per cent), using Zipcar for business tasks ([redacted] per cent) and using Zipcar for both personal and business tasks ([redacted] per cent);
- (c) membership and per-use charges were the same for existing and new customers, who were eligible for a frequent user value plan which offered a reduced annual membership fee of £25 and a 5 per cent discount on all driving charges in exchange for spending at least £50 in driving fees. Further discounts of 10 per cent were available with an agreed driving fee spend of £100 and 15 per cent with an agreed spend of at least £250;
- (d) the competitive constraints faced by Zipcar were the same across the different boroughs where it operated and therefore the effect of a price increase would be the same across all boroughs;
- (e) given there were a number of car club operators in London, if the presence of these rivals significantly altered consumer responses to Zipcar's price increases, Zipcar would have already engaged in differential pricing based on presence or absence of these rivals in particular boroughs; and
- (f) Zipcar's internal documents suggested that it considered [redacted] focused on [redacted] the [redacted] which was [redacted]. The same documents showed that Zipcar also considered [redacted] at the [redacted].

### ***Third party evidence***

61. According to Carplus, in multi-operator boroughs car clubs competed less on brand and more on the price or packages that they offered.
62. Greenwheels told us that that its customers were primarily private individuals without a private car who were heavy users of public transport, took taxis for incidental short journeys and used car rental for longer, pre-planned journeys.

63. Hertz told us that Connect by Hertz charged the same price across different London boroughs, although it noted that boroughs where it competed with other car clubs were more price sensitive.

## Theory of harm 1: Loss of competition for members—additional analytical evidence

### Price competition

#### *Diversion ratio and margin analysis*

1. A merger is more likely to give rise to unilateral effects<sup>1</sup> when margins are higher and when the parties were close competitors pre-merger so that the diversion ratio between them was higher. One way to gain additional insight into the implications of evidence about diversion ratios and margins is to focus on the change in incentives to compete as a result of the merger.
2. Before the merger, if Zipcar raised its prices, one consequence would have been that it lost the margin on sales from those customers who switched to Streetcar as a result of Zipcar's price rise. Streetcar, on the other hand, would have gained extra margin from these sales. The merger means that the *value of these diverted sales* to Streetcar is no longer a cost to the combined firm from raising price, and the value of diverted sales provides one indication of the change in incentives to raise Zipcar's prices as the result of the merger.
3. The value of the sales diverted to Streetcar, for each sale lost by Zipcar as the result of a price rise, is given by Streetcar's margin on each unit sold multiplied by the proportion of the lost sales that Streetcar would pick up (the diversion ratio).
4. We used an estimate of the diversion ratio which is in line with the estimate that the main parties presented to us in their response to our initial analysis (see Table 1). The main parties submitted that we should not have excluded the 'don't know' responses when deriving our diversion ratios. We disagree. This is because even if in

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<sup>1</sup>See [The Guidelines](#), section 5.4.

this hypothetical situation members were given the option of saying ‘don’t know’, in real life they would have to make a choice how to replace their car club if it became unavailable.

5. When it comes to distributing the ‘don’t know’ answers across the rest of the sample, we chose to replicate the proportion of the other categories. However, we acknowledge that this is an assumption and that, in reality, the members who responded ‘don’t know’ could divert to alternatives to their current car clubs in proportions which do not mirror the response distribution of those members who provided a specific answer (ie not a ‘don’t know’ answer). Since we can only speculate about these alternative proportions and since any other treatment could make the diversion ratio larger or smaller, we considered that our assumption of proportional distribution of ‘don’t know’ responses on the basis of the existing survey responses was a reasonable one.

TABLE 1 Derivation of diversion ratios from the CC’s survey

	%
<i>Zipcar</i>	
Diversion ratio from Zipcar to other car clubs (Q24)	26.9
Proportion of members who would join SC (Q25 ‘don’t know’ adjusted)	87.2
Diversion ratio from Zipcar to SC (Q24*Q25 adjusted)	23.5
<i>Streetcar</i>	
Diversion ratio from Streetcar to other car clubs (Q24)	26.4
Proportion of members who would join Zipcar (Q25 ‘don’t know’ adjusted)	83.7
Diversion ratio from Streetcar to Zipcar (Q24*Q25 adjusted)	22.1

Source: CC survey, Q24 and Q25.

6. We sought to estimate appropriate margins for Zipcar and Streetcar. For the purposes of our analysis we attempted to show the effect on costs and revenues of an increase in Streetcar customers as a result of customers switching from Zipcar in response to a price rise. In the short term, we would expect that the costs relating to journeys (eg fuel, telephone bookings) would increase with demand, but that the costs relating to cars (eg parking, depreciation) would stay fixed since, for the most part, the increased demand would lead to increased utilization at each location rather

than an increase in the number of cars provided at each location. On this basis, we found margins of [X] per cent for Streetcar and [X] per cent for Zipcar.

7. The main parties argued that car costs too were variable in the short term. We acknowledge that it may be possible that the main parties have some flexibility in responding to changes in demand by changing the size of their fleet. However, we were not convinced that the main parties have total flexibility to do so, nor that it would be necessary to do so in the short term in response to a change in demand following a small change in price. This was because we considered that the main parties could also increase their car utilization (which, as we understand, would be necessary in any case if the businesses were to become profitable in the long run). Since the market is growing, we would expect customer numbers to increase in the longer term, and this would lead to further fleet expansion.
  
8. In order to determine the effect of treating car costs as variable, we tested two assumptions of car cost variability, one assuming that all car costs (associated costs and corresponding revenues) were variable and one assuming that only half of all car costs were variable. We found that the gross margins are [X] per cent for Streetcar and [X] per cent for Zipcar when [X] of the car fleet costs were variable, and that Streetcar's margins [X] per cent and Zipcar's margins [X] per cent when [X] car fleet costs are treated as variable (see Table 2).<sup>2</sup>

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<sup>2</sup>The main parties argued that (i) variable margin should include vehicle and associated costs, and (ii) such a margin was at most [X] per cent. We note that the main parties' estimates do not tie in with our own estimates of the margins using the main parties' accounts when we consider that vehicle and associated costs are variable.

TABLE 2 **Margin estimation**

	<i>per cent</i>	
	<i>Streetcar</i>	<i>Zipcar</i>
Car costs do not vary within a short period (ie only journey costs and revenues included)	[ <del>  </del> ]	[ <del>  </del> ]
50% of car costs vary within a short period (ie car costs and fee revenues added)	[ <del>  </del> ]	[ <del>  </del> ]
All car costs vary within a short period (ie car costs and fee revenues added)	[ <del>  </del> ]	[ <del>  </del> ]

*Source:* CC calculations based on data provided by the main parties.

9. We recognized that, for growing businesses, accounting profits may understate the true profitability of the business. One reason for this is that expenditure which produces a prolonged future benefit (for example, customer acquisition costs, or costs of acquiring parking spaces or winning tenders) may be treated as a cost rather than being capitalized and depreciated over the period in which the benefit occurs. We therefore also sought to value the diverted sales to Streetcar by estimating the lifetime value of a customer through a discounted cash flow analysis. Using the forecast prepared by Zipcar when it acquired Streetcar, we estimated the present value of the net income per customer as approximately £[].<sup>3</sup> We also noted that the acquisition cost of a Streetcar customer was approximately £[], so we would expect the lifetime value of an average customer to be greater than this figure. Moreover, estimating future benefits is more difficult in a growing market where the future growth may differ from past trends.
10. The main parties provided two estimates of Streetcar's margins. The first margin was derived from the main parties' accounts and was based on the assumption that the main parties scale their car numbers according to the demand. The margin is calculated as the proportion of a cost increase that results from a 1 per cent increase in membership. The calculation is based on overheads, salaries and depreciation.

<sup>3</sup>We used data from Zipcar's forecast for Streetcar to derive a net income per customer for 2010–14. This was then discounted at a rate of 15 per cent, and inflated to reflect mid-year cash flows. We assumed that there would be no attrition of customers within the period, but did not use a terminal value.

The main parties arrived at a margin of [X] per cent for the financial year 2009. We note that the main parties did not explain how they derived this margin based on the indirect cost increase estimate. As we explained above, we are not convinced that the main parties could or would vary their entire fleet following a SSNIP. We therefore believe that the main parties' margin may be an underestimate.

11. The second margin that the main parties supplied was derived from Streetcar's own price elasticity through the Lerner equation.<sup>4</sup> The own-price elasticity was in turn obtained from the CC survey questions regarding car club members' sensitivity to price increases. The margin derived in this manner is approximately [X] per cent. We note that this margin is also implied by the main parties' critical loss analysis which uses the same calculation of elasticity.
  
12. The main parties pointed out what they considered to be a discrepancy between the margins that we derived from their accounts and the margins that the main parties derived from the elasticity estimates based on our survey. In response, we note firstly, we have acknowledged that in the car club market it is unusually difficult to ascertain the right level of gross margin and thus we considered a range of estimates in our analysis. Secondly, we are not convinced that the main parties' elasticity estimate based on our survey is reliable. We used this estimate (i) to carry out a consistency check on the main parties' critical loss analysis, and (ii) in our own critical loss analysis alongside other estimates of margins to ascertain whether our results were sensitive to the choice of the margin (and thereby elasticity). We found that the main parties' analysis was inconsistent with the Lerner condition and our results were not sensitive to the choice of margin (see Appendix E).

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<sup>4</sup>The Lerner equation is derived from the assumption that businesses maximize their profit and therefore price at a level where marginal cost equals marginal revenue. The Lerner equation is derived from this equality and stipulates that  $m = -1/e$ , where  $m$  is a price cost margin and  $e$  is an own-price elasticity.

13. However, using the main parties' elasticity estimate for such purposes did not imply that we considered it to be superior to other estimates of elasticities (as derived from different margin estimates) or that we considered it robust. Indeed, we have concerns about the main parties' elasticity estimate. In general, hypothetical survey questions such as those used for the main parties' elasticity estimate need to be treated with caution as there is a risk of bias. In addition, in this case we do not believe that a reliable elasticity estimate can be derived by combining a sequence of survey questions asking consumers about their hypothetical reaction to a SSNIP increase in different parts of a two-part tariff and then combining these responses in an 'overall SSNIP' for both parts of the tariff. While we do not dispute that it is possible that members take account of the prices of both journeys and membership fees when making their decision to join a car club and to make an individual journey, we do not believe that these responses can be added together in the way the main parties suggested. We also considered that further manipulations of the survey data were unlikely to yield a more robust estimate.
14. We considered whether Zipcar would increase its prices post-merger (which is not unreasonable given that its current prices are considerably below Streetcar's and given that the main parties told us they [redacted]) and what the value of the diverted sales to Streetcar would be as a result. For this reason, we focused on Streetcar's margin. We estimated the value of the diverted sales, which indicates whether the merged entity would have incentives to raise prices post-merger.
15. The main parties argued that it was unreasonable for us to assume that the merged firm would raise Zipcar's prices to Streetcar's level. This is because [redacted]. While we accept that it is not possible for us to predict the exact extent of a post-merger price increase on the basis of the available information, we do not believe that our assumption was unreasonable. First, [redacted]. Second, even if Streetcar's prices

remained constrained post-merger at their current level, given the gap between the prices of Zipcar and Streetcar (see the section on price comparisons below), Zipcar can increase prices considerably (ie by more than a SSNIP) and still remain below Streetcar's current prices.

16. Given the particular difficulties of establishing the right level of margins in this case, we used a range of margins to derive the value of diverted sales following the merger. We obtained a range of results (see Table 3) which, absent entry or the threat of entry, are consistent with a finding that the main parties would have at least a moderate incentive to increase prices post-merger.

TABLE 3 Calculation of the value of diverted sales

	<i>Streetcar margins 2009</i>	<i>Diversion ratio from Zipcar to Streetcar</i>	<i>per cent Value of diverted sales</i>
CC—only truly variable costs included	[X]	[X]	[X]
CC—car depreciation and other vehicle related costs and indirect costs (50%)	[X]	[X]	[X]
CC—car depreciation and other vehicle related costs and indirect costs	[X]	[X]	[X]
Main parties—indirect costs based estimation	[X]	[X]	[X]
Main parties—derivation through elasticity	[X]	[X]	[X]

Source: CC calculations based on data provided by the main parties.

### **Price comparisons—the main parties**

17. TOH 1 envisages that the merger removes price competition that existed between Zipcar and Streetcar. One issue that is relevant to an assessment of the effect of the merger on prices is the current difference in pricing between the main parties. Given that the main parties [X].
18. Streetcar currently sets higher prices than Zipcar. The difference amounts to 20 per cent on subscription fees and 20 per cent or more on weekday rentals.<sup>5</sup> If rentals were evenly distributed throughout the week, this would give an average price difference of roughly 15 per cent for hourly rates and 28 per cent for daily rates.

<sup>5</sup>The main parties noted that there was an exception to this in that, for Monday to Friday rental, Streetcar charged £195 for a VW Golf for five days, whereas Zipcar's price was £45 per day.

Assuming that both daily and hourly rates generate the same proportion of revenue, the average per-rental price difference would be 21 per cent. This price difference becomes even more pronounced when the fact that petrol is included in the price is taken into account.

19. Comparison of Streetcar and Zipcar's prices is complicated by the fact that their vehicle usage charges vary according to the model of car, time of week and whether hourly or daily rental is considered. What is included in the price also differs between Streetcar and Zipcar. We focused our analysis on a price comparison using VW Golfs and VW Polos. This is because both companies offer these models of car and these cars make up around [redacted] per cent of their respective fleets with VW Golf on its own making up around [redacted] per cent of the fleet (see Table 4).

TABLE 4 **Weight of VW Polo and VW Golf in the parties' fleet in Q2 2010**

	<i>% of fleet</i>	
	<i>VW Polo</i>	<i>VW Golf</i>
Streetcar	[redacted]	[redacted]
Zipcar	[redacted]	[redacted]

Source: Main parties.

20. Based on the main parties' websites, Streetcar is 20 per cent more expensive on membership fees. During weekdays, Streetcar is 20 to 25 per cent more expensive on hourly rates and 33 to 71 per cent more expensive on daily rates. During the weekend, Streetcar charges the same hourly rates as Zipcar and is 2 to 11 per cent more expensive on daily rates.

TABLE 5 Price comparisons between Zipcar and Streetcar

	VW Golf			VW Polo		
	Streetcar £	Zipcar £	Extent to which Streetcar's price is higher %	Streetcar £	Zipcar £	Extent to which Streetcar's price is higher %
Annual membership	59.50	50.00	20	59.95	50.00	20
Hourly price weekday	5.95	4.95	20	4.95	3.95	25
Daily price weekday	59.50	45.00	33	49.50	29.00	71
Hourly price weekend	5.95	5.95	0	4.95	4.95	0
Daily price weekend	59.50	59.00	2	49.50	45.00	11

Source: Main parties' websites.

Note: Petrol is charged at 23p per mile after 30 miles for Streetcar and 60 miles for Zipcar.

21. We considered the overall price difference between the hourly rates of the main parties for the two types of car, and we did the same for the daily rates. We used a weekday/weekend weighting (a 5/2 ratio) and a Golf/Polo fleet weighting (a 7/1 ratio). We found that Streetcar was 15 per cent more expensive on hourly rates, 28 per cent on daily rates and 21 per cent overall on journeys.

TABLE 6 Price difference between Streetcar and Zipcar

	Extent to which Streetcar's Golf price is higher	Extent to which Streetcar's Polo price is higher	Fleet weighted average price difference		per cent
				Weekday and fleet weighted average price difference	
Annual membership	20	20	20	Annual membership	20
Hourly price weekday	20	25	21	Average hourly rate	15
Hourly price weekend	0	0	0	Average daily rate	28
Daily price weekday	33	71	38	Average journey	21
Daily price weekend	2	11	3		

Source: CC assessment.

22. Moreover, when we factored in the petrol price allowance, the disparity between the main parties' prices increased. In particular, if we assumed that members use all the petrol allowance during their hire periods, Streetcar could be up to three times more expensive than Zipcar (see Table 7).

TABLE 7 Price comparisons between Zipcar and Streetcar daily rates including petrol credit

	VW Golf			VW Polo		
	Streetcar £	Zipcar £	Extent to which Streetcar's price is higher %	Streetcar £	Zipcar £	Extent to which Streetcar's price is higher %
Weekday charge with petrol benefit and congestion charge pass-through	52.6	31.2	59	42.6	15.2	280
Weekend charge with petrol benefit and congestion charge pass-through	52.6	45.2	86	42.6	31.2	137

Source: Main parties' websites.

Note: We assumed that the petrol allowance, 30 miles for Streetcar and 60 miles for Zipcar, is used up and petrol is charged at 23p per mile as it would be above the allowance.

23. The results of this price comparison were consistent with the results of our survey which showed that significantly more Zipcar members joined Zipcar because it was cheaper than other car clubs (31 per cent of Zipcar members) than Streetcar members joined Streetcar because it was cheaper than other car clubs (10 per cent of Streetcar members).<sup>6</sup>

### **Price comparisons—other transport options**

24. We tested the main parties' suggestion that car rental was a good substitute for car club services in particular for long hire periods, and taxis and public transport were a good substitute in particular for short hire periods.

25. First, we analysed the difference between the short and long hire periods, in particular (i) whether they are constraints on each other, and (ii) whether the constraints on long hire periods differ from the constraints on short hire periods. Second, we analysed the constraint imposed by other transport options, in particular (a) the impact of car rental on long hire periods; and (b) the impact of taxis and the Underground on short hire periods.

<sup>6</sup>CC survey, Q11.

### *Difference between short and long hire periods*

26. Car clubs have hourly and daily rental rates. This reflects the fact that there are two distinct types of rentals—‘long’ and ‘short’. For all car clubs but Zipcar, customers should become indifferent whether they use cars on an hourly basis after 10 hours or pay the daily rate, since the daily rate is 10 times the hourly rate. For Zipcar, the daily rate is on average 8 times the hourly rate (see Table 8).

TABLE 8 **Number of hours after which hourly rental costs the same as a daily rental**

	<i>Lowest weekday hourly rate £</i>	<i>Lowest weekday daily rate £</i>	<i>No of weekday hours necessary for indifference*</i>	<i>Lowest weekend hourly rate £</i>	<i>Lowest weekend daily rate £</i>	<i>No of weekend hours necessary for indifference</i>
Zipcar	3.95	29	7.3	4.95	45	9.1
Streetcar	4.95	49.5	10.0	4.95	49.5	10.0
Connect by Hertz	3.95	39.5	10.0	3.95	39.5	10.0
City Car Club	4.95	49.5	10.0	4.95	49.5	10.0

Source: CC’s calculations based on information from the websites of the main parties, Connect by Hertz and City Car Club.

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\*This is the threshold from which hiring by the hour costs the same as hiring for a day.

27. We also found that most members who take vehicles for short rental periods do not take them around the ‘indifference hours’, ie their rental times are well below 8 or 10 hours. Around [ ] of Streetcar members make rentals of no more than 5 hours and the same proportion of Zipcar members make rentals of no more than 6 hours. Moreover, only about [ ] per cent of both parties’ members use vehicles for 8 or 10 hours and a similar proportion uses vehicles at just above these thresholds (see Table 9). This suggests that short hire periods are a separate market segment to long hire periods.

TABLE 9 How long do members hire vehicles for?

	Streetcar		Zipcar	
	%	Cumulative %	%	Cumulative %
0-1 hour	[X]	[X]	[X]	[X]
1-2 hours	[X]	[X]	[X]	[X]
2-3 hours	[X]	[X]	[X]	[X]
3-4 hours	[X]	[X]	[X]	[X]
4-5 hours	[X]	[X]	[X]	[X]
5-6 hours	[X]	[X]	[X]	[X]
6-7 hours	[X]	[X]	[X]	[X]
7-8 hours	[X]	[X]	[X]	[X]
8-10 hours	[X]	[X]	[X]	[X]
10-20 hours	[X]	[X]	[X]	[X]
20-24 hours	[X]	[X]	[X]	[X]
24-48 hours	[X]	[X]	[X]	[X]
Above 48 hours	[X]	[X]	[X]	[X]

Source: Main parties.

28. Finally, a majority of the main parties' revenues, [X] per cent for Streetcar and [X] per cent for Zipcar, are generated from long hire periods (see Table 10).

TABLE 10 Revenue split between short and long hire periods

	per cent	
	Streetcar	Zipcar
Revenue from short hire periods	[X]	[X]
Revenue from long hire periods	[X]	[X]

Source: CC analysis of data from main parties.

### Differences between members' preferred options

29. We analysed our survey evidence to understand whether the main parties' members chose different transport options as their alternatives to car clubs based on the length of their rental period. We found that a significantly higher proportion of members considered car rental an alternative to a car club for long hire periods, although the proportion of customers who considered car rental as an alternative for short hire periods was also non-negligible. Similarly, a significantly higher proportion of members considered taxis an alternative to car club for short hire periods. The results for public transport suggested that this constraint too was non-negligible, although there was no difference in the strength of this constraint on short and long hire periods (see Table 11).

TABLE 11 Most likely alternative if the members' car club no longer existed when they made their last booking

	<i>per cent</i>			
	<i>Zipcar</i>		<i>Streetcar</i>	
	<i>Short hire periods</i>	<i>Long hire periods</i>	<i>Short hire periods</i>	<i>Long hire periods</i>
<b>Joined another car club</b>	<b>30</b>	<b>21</b>	<b>28</b>	<b>20</b>
Used another car club I am already a member of	11	9	2	3
<b>Used traditional car hire (eg Budget)</b>	<b>10</b>	<b>35</b>	<b>17</b>	<b>42</b>
Used a car I, or my household, own	1	4	2	2
Bought a car	4	4	3	1
Borrowed a car from family/friends	2	1	4	2
Arranged a lift from family/friends	2	3	2	1
<b>Used a taxi</b>	<b>14</b>	<b>1</b>	<b>13</b>	<b>7</b>
Used public transport (eg bus, tube, rail)	15	17	17	19
Cycled	1	0	1	0
Walked	0	0	0	0
Not made the trip	<u>10</u>	<u>6</u>	<u>10</u>	<u>3</u>
Total	100	100	100	100

Source: CC survey Q23/24 filtered on Q21.

### *Constraints on long hire periods*

30. We undertook a price comparison of car clubs and car rental to see whether their pricing was broadly similar. Whether these rates were comparable depended to a significant extent on the assumptions we made. When we compared headline rates<sup>7</sup> on the basis of a small economy car, car rental was more expensive than car clubs. We made the following assumptions and considered the following factors in our analysis:
- (a) We compared weekend and weekday prices separately.
  - (b) We sampled a number of possible hire periods with car rental companies and averaged prices.<sup>8</sup>
  - (c) We used the cheapest comparable car rental option as a benchmark for the cheapest car club vehicle. This approach was generous to car rental companies as the cheapest available car club vehicles are generally of higher category than the cheapest economy car rental vehicle.

<sup>7</sup>By headline rates we mean rates advertised on the car rental and car club websites without taking account of the petrol credit and other benefits that car clubs offer.

<sup>8</sup>We noted that some car rental companies had higher prices for imminent bookings while others offered higher prices for booking longer in advance.

- (d) We took the cheapest car rental vehicle available in London, despite the fact that it might not be available at all depots.
- (e) We reflected the free mileage and congestion charge for weekday travel.
- (f) We considered the effect of the car club membership fee. We based this analysis on the median number of bookings the main parties' members made per year.
- (g) We were unable to reflect the fact that most rental companies have only limited opening hours at the weekend (most of them are shut on Sundays).

31. The outcome of the comparison depended very much on the assumptions applied (see Tables 12 and 13 for results). It also varied considerably between different car rental operators.

TABLE 12 Comparison of car club and car rental weekend pricing

	£				
	<i>Cost of weekend booking</i>	<i>Cost of weekend booking including pro rata membership fee</i>	<i>Car clubs Cost of weekend booking including petrol credit</i>	<i>Cost of weekend booking including pro rata membership fee and petrol credit</i>	<i>Car rental Average cost of weekend booking</i>
Zipcar	90.0	102.5	78.6	91.1	
Streetcar	99.0	113.9	93.3	108.2	
Connect by Hertz	79.0	91.5	73.3	85.8	
City Car Club	99.0	111.5	99.0	111.5	
Avis					124.0
Hertz					106.3
Europcar					129.9
Enterprise					58.4
Sixt					112.0

Source: CC's calculations based on information from the websites of the main parties, Connect by Hertz, City Car Club, Avis, Hertz, Europcar, Enterprise and Sixt.

Note: All information has been collected on the basis of the cheapest comparable vehicles. The car rental companies' data has been collected for three different dates and averaged to take account of the fact that some car rental companies offer.

TABLE 13 Comparison of car club and car rental weekend pricing, using Zipcar as a base

	<i>Car clubs</i>				<i>per cent</i>
	<i>Cost of weekend booking</i>	<i>Cost of weekend booking including pro rata membership fee</i>	<i>Cost of weekend booking including petrol credit</i>	<i>Cost of weekend booking including pro rata membership fee and petrol credit</i>	<i>Car rental</i>
					<i>Average cost of weekend booking</i>
Zipcar	99	113	86	100	
Streetcar	109	125	102	119	
Connect by Hertz	87	100	80	94	
City Car Club	109	122	109	122	
Avis					136
Hertz					117
Europcar					143
Enterprise					64
Sixt					123

Source: CC's calculations based on information from the websites of the main parties, Connect by Hertz, City Car Club, Avis, Hertz, Europcar, Enterprise and Sixt.

32. With respect to weekend pricing, when we considered all the extras and did not consider the car club membership fee, car clubs were generally considerably cheaper than car rental. When we included the pro rata membership fee, this gap narrowed although three out of five car rental operators (Avis, Enterprise and Sixt) were still more expensive than both Streetcar and Zipcar (see Tables 12 and 13).

TABLE 14 Comparison of car club and car rental weekday pricing

	<i>Car clubs</i>			<i>£</i>
	<i>Weekday daily rate</i>	<i>Weekday rate including petrol credit and congestion charge credit</i>	<i>Weekday rate including pro rata membership fee, petrol credit and congestion charge credit</i>	<i>Car rental</i>
				<i>Average daily rate including congestion charge</i>
Zipcar	29	17.6	30.1	
Streetcar	49.5	43.8	58.7	
Connect by Hertz	39.5	33.8	46.3	
City Car Club	49.5	53.5	66.0	
Avis				48.0
Hertz				43.7
Europcar				49.3
Enterprise				37.4
Sixt				49.0

Source: CC's calculations based on information from the websites of the main parties, Connect by Hertz, City Car Club, Avis, Hertz, Europcar, Enterprise and Sixt.

Note: All information has been collected on the basis of the cheapest comparable vehicles. The car rental companies' data has been collected for three different dates and averaged to take account of the fact that some car rental companies offer different rates depending how far in advance a vehicle is booked.

TABLE 15 Comparison of car club and car rental weekday pricing, using Zipcar as a base

	<i>Car clubs</i>			<i>per cent</i>
	<i>Weekday daily rate</i>	<i>Weekday rate including petrol credit and congestion charge credit</i>	<i>Weekday rate including pro rata membership fee, petrol credit and congestion charge credit</i>	<i>Car rental Average daily rate including congestion charge</i>
Zipcar	96	58	100	
Streetcar	164	146	195	
Connect by Hertz	131	112	154	
City Car Club	164	178	219	
Avis				159
Hertz				145
Europcar				164
Enterprise				124
Sixt				163

Source: CC's calculations based on information from the websites of the main parties, Connect by Hertz, City Car Club, Avis, Hertz, Europcar, Enterprise and Sixt.

33. With respect to weekday pricing, the comparability of prices depended very much on a given car club. Zipcar was considerably cheaper than all car rental companies, Streetcar was cheaper than three and on a par with one other while City Car Club was considerably more expensive than all car rental companies (see Tables 14 and 15).

#### *Constraints on short hire periods*

34. The main parties told us that the Underground and taxis were the most likely substitutes for short hire periods and prepared a price comparison analysis. We compared the price of both taxis and the Underground with car clubs. It was necessary for us to make a number of assumptions and consider a number of factors. In particular:
- (a) We considered the main parties' suggestion that taxis and the Underground did not incur costs while customers were at their destinations, while car clubs rentals did incur such costs. The main parties suggested assuming a 2-hour stay at the destination. In addition we also considered a 4-hour stay at the destination, as the main parties' customer database suggested that the median car club journey lasted for 4 hours.

- (b) For taxis, we did not assume any waiting time for either car clubs or taxis. The main parties' analysis included an extra cost for car clubs related to booking time. However, we took the view that in both cases, when a booking is made in advance, these costs could be eliminated. Similarly, when a booking is made on the spur of the moment, taxis too may not be available immediately.
- (c) For taxis, we assumed TfL's estimates of costs. We noted that these costs appeared to be low and to assume a low level of traffic congestion.
- (d) For the Underground, we considered the cost of accessibility for both the Underground and car clubs. Customers cannot avoid walking to an Underground station. We allowed 15 minutes at each end of the journey which was similar to what the main parties assumed in their analysis. We also allowed a 30-minute accessibility time for car clubs.<sup>9</sup> Again, we understand that the main parties made a similar assumption.
- (e) For the Underground, we further assumed a 30-minute journey, which roughly corresponded to a six-mile journey for which TfL offered comparable taxi journeys.
- (f) For the Underground, we used an average of peak and off-peak Oyster card journeys assuming that most members live in London and would not normally pay non-Oyster car fares (which are higher than Oyster card fares).
- (g) We did not accept the main parties' estimate of waiting opportunity cost. It was based, in our view, on an unrealistically high estimate of the average wage in London. We based our estimate on the median weekly salary in London, as suggested by the Office for National Statistics. We also used net rather than gross salary. Our derivation of waiting time opportunity cost was the same as that used by the main parties.
- (h) We did not take account of any possible parking charges for car clubs. To our knowledge, the main parties did not take these into account either.

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<sup>9</sup>This comprised at least 15 minutes to book a car club vehicle on the Internet and 10 minutes to walk to the car.

(i) We could not take into account the very different nature of travel that car, taxi and Underground travel represented in terms of flexibility for the customer.

35. The outcome of the comparison depended very much on whether we considered comparable return journeys and on the length of the trip.

### Taxis

36. When a customer needs to make just one journey lasting less than 40 minutes, taxis are a cheaper alternative than car clubs. However, for journeys lasting more than 40 minutes, car clubs become a cheaper alternative even when various options for the time of stay at the destination are taken into consideration. Indeed, for a journey lasting more than 40 minutes a daily car club rate becomes cheaper than a taxi. This conclusion of course assumes that the journey purposes are comparable and that the customers do not need to be driven to a particular destination without a clear idea when they will be returning and whether they will be returning to the same point.

37. For journeys that assume a return, taxi costs quickly escalate and car clubs become a considerably more attractive alternative for journeys lasting more than 15 minutes (see Table 16).

TABLE 16 Comparison of taxis and car clubs

£

Miles	Taxi time (TfL up to 4 miles)	Average taxi cost (TfL)	Taxi cost when return is assumed	Zipcar weekday costs (assuming return necessary) plus 2 hours at destination	Streetcar weekday costs (assuming return necessary) plus 2 hours at destination	Zipcar weekday costs (assuming return necessary) plus 4 hours at destination	Streetcar weekday costs (assuming return necessary) plus 4 hours at destination
1	5–12 mins	6.80	13.60	11.85	14.85	19.75	24.75
2	8–15 mins	9.20	18.40	11.85	14.85	19.75	24.75
4	15–30 mins	16.00	32.00	11.85	14.85	19.75	24.75
6	20–40 mins	23.50	47.00	15.80	19.80	23.70	29.70
Airport services	30–60 mins	59.00	118.00	15.80	19.80	23.70	29.70

Source: CC calculations based on information from the main parties' websites, TfL website, Office for National Statistics website.

## Underground

38. When consumers make one-way journeys, travelling by Underground is considerably cheaper than using car clubs. For return journeys, car clubs are competitive if no more than 2 hours are spent at the destination (see Table 17). However, as discussed earlier, this analysis takes account only of the cost and not of the additional convenience of travelling by car. Carplus surveys suggested that a large number of members use car clubs for shopping and to drive a friend or relative to an airport. The convenience of having a car to transport shopping or luggage is not taken into account. Conversely, the costs of car clubs may be based on overly optimistic assumptions about traffic flow.

TABLE 17 Comparison between underground and car clubs

	£
Average peak Oyster fare (assuming 30-minute walk time)	9.48
Average off-peak Oyster fare (assuming 30-minute walk time)	8.62
Average peak Oyster fare (assuming 30-minute walk time and return)	18.96
Average off-peak Oyster fare (assuming 30-minute walk time and return)	17.24
Zipcar weekday cost (assuming a 30-minute journey, 2 hours at destination and return and 30-minutes to access car)	13.83
Streetcar weekday cost (assuming a 30-minute journey, 2 hours at destination and return and 30-minutes to access car)	17.33
Zipcar weekday cost (assuming a 30-minute journey, 4 hours at destination and return and 30-minutes to access car)	21.73
Streetcar weekday cost (assuming a 30-minute journey, 4 hours at destination and return and 30minutes to access car)	27.23

Source: CC calculations based on information from the main parties' websites, TfL website, Office for National Statistics website.

## Capacity competition

### *Analysis of Streetcar reaction to Zipcar entry*

39. We analysed the impact of Zipcar's entry on Streetcar, in particular the impact of Zipcar's 2007 entry on Streetcar's fleet expansion generally and Zipcar's 2009 expansion in Westminster on Streetcar's fleet in Westminster.
40. With respect to Zipcar's 2007 entry in London, the main parties told us that following Zipcar's entry: (i) the rate at which Streetcar attracted new members [X] from [X]

members per week to [REDACTED] members per week due to [REDACTED], and (ii) Streetcar [REDACTED] the number of its [REDACTED] because it received [REDACTED], not because of Zipcar's entry.

41. We noted that Streetcar's [REDACTED] coincided with Zipcar's entry.<sup>10</sup> In our view this could be consistent with an aggressive competitive reaction to a new entrant.
42. We further noted that when we investigated Streetcar's marketing spend we found a significant spike in the data coinciding with Zipcar's entry (see Figure 1). We believe that taken together, the [REDACTED] and increase in its market spend are consistent with an aggressive reaction to Zipcar's entry.<sup>11</sup>

FIGURE 1

### Streetcar's marketing spend

[REDACTED]

Source: Streetcar.

43. With respect to Streetcar's rapid expansion of its fleet in Westminster following the loss of Streetcar's bid to run the Westminster Car Club, the main parties told us that the sharp rise in Streetcar's vehicles in Westminster was part of a long-term plan. We note that the main parties did not provide any documentary or other evidence to support this submission. We note that the coincidence of the sharp rise in the number of Streetcar vehicles in Westminster with the sharp rise of Zipcar vehicles in Westminster is consistent with aggressive competition between the merging parties.

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<sup>10</sup>Streetcar told us that its decision to [REDACTED] was taken prior to Zipcar's entry. According to Streetcar, [REDACTED] and was consistent with Streetcar's growth in previous years.

<sup>11</sup>Streetcar told us that the spike in its marketing spend corresponded to [REDACTED] rather than being a competitive response to Zipcar. Streetcar further told us that had it reacted to Zipcar entry, this reaction would have occurred at the time of Zipcar's entry in 2006. However, we noted that the main parties also told us that Streetcar [REDACTED] following Zipcar's entry (see paragraph 40 in this appendix). Streetcar also previously told us that the period of Zipcar's entry was from December 2006 to November 2007.

## ***Fleet share analysis***

44. Streetcar operates in 30 London boroughs (as well as in 10 other cities in the UK). In 15<sup>12</sup> of these London boroughs, Streetcar's operations overlap with those of Zipcar. This means that Zipcar customers also generally have access to Streetcar cars in these overlap areas. On the other hand a smaller proportion of Streetcar customers also have access to a Zipcar car since Streetcar's operations do not always overlap with those of Zipcar. This evidence suggests Streetcar is a closer substitute for Zipcar than Zipcar is for Streetcar, and suggests that the effects of the merger on pricing incentives will be greater for Zipcar's prices than for those of Streetcar.
45. This is borne out by the results of our survey (Q7) where 78 per cent of Zipcar customers reported that Streetcar was present in their local area while only 48 per cent of Streetcar customers reported that Zipcar was present in their local area.<sup>13</sup>
46. We also found that there was an asymmetry in the extent to which the networks of the main parties overlapped. [X] Zipcar car is in a borough where Streetcar has at least [X] per cent of the total car club fleet. On the other hand, only [X] per cent of Streetcar cars are in boroughs where Zipcar has at least [X] per cent of the total car club fleet.
47. Table 18 shows the percentage of Streetcar's fleet that is in boroughs where Zipcar has a significant presence. The table shows two possible thresholds for identifying these boroughs: where Zipcar has more than 10 per cent of the borough's fleet and more than 20 per cent of the borough's fleet. Similarly the table shows the per-

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<sup>12</sup>Zipcar currently overlaps with Streetcar in 14 London boroughs, but has in the past also had vehicles in Hackney, where it overlapped with Streetcar's network. The data used in our proximity analysis included Zipcar vehicles in Hackney, and hence we discuss 15 overlap boroughs in this section.

<sup>13</sup>These figures should be treated with some caution as the sample was not selected to be representative of the population in all boroughs.

centage of Zipcar's fleet that is located in boroughs where Streetcar has a significant presence.

TABLE 18 Parties' proportions of fleet in overlap boroughs

	<i>per cent</i>	
	<i>Boroughs where the other merging party has more than 10% of the borough's fleet</i>	<i>Boroughs where the other merging party has more than 20% of the borough's fleet</i>
Streetcar's proportion of fleet	[X]	[X]
Zipcar's proportion of fleet	[X]	[X]

Source: CC calculations based on data from the main parties.

48. In short, all of Zipcar's fleet is in boroughs where Streetcar has a significant presence, while less than either [X] or [X] of Streetcar's fleet is in boroughs where Zipcar has a significant presence (depending on whether we use 10 or 20 per cent as the threshold for significance).

49. The data underlying these calculations is in the following table.

TABLE 19 Main parties' shares of fleet in London boroughs, 2009

	<i>per cent</i>					
	<i>Shares of cars in borough</i>				<i>Number of cars</i>	
	<i>City Car Club</i>	<i>Hertz</i>	<i>Streetcar</i>	<i>Zipcar</i>	<i>Streetcar</i>	<i>Zipcar</i>
Barking & Dagenham	[X]	[X]	[X]	[X]	[X]	[X]
Barnet	[X]	[X]	[X]	[X]	[X]	[X]
Bexley	[X]	[X]	[X]	[X]	[X]	[X]
Brent	[X]	[X]	[X]	[X]	[X]	[X]
Bromley	[X]	[X]	[X]	[X]	[X]	[X]
Camden	[X]	[X]	[X]	[X]	[X]	[X]
City of London	[X]	[X]	[X]	[X]	[X]	[X]
Croydon	[X]	[X]	[X]	[X]	[X]	[X]
Ealing	[X]	[X]	[X]	[X]	[X]	[X]
Enfield	[X]	[X]	[X]	[X]	[X]	[X]
Greenwich	[X]	[X]	[X]	[X]	[X]	[X]
Hackney	[X]	[X]	[X]	[X]	[X]	[X]
Hammersmith & Fulham	[X]	[X]	[X]	[X]	[X]	[X]
Haringey	[X]	[X]	[X]	[X]	[X]	[X]
Harrow	[X]	[X]	[X]	[X]	[X]	[X]
Havering	[X]	[X]	[X]	[X]	[X]	[X]
Hillingdon	[X]	[X]	[X]	[X]	[X]	[X]
Hounslow	[X]	[X]	[X]	[X]	[X]	[X]
Islington	[X]	[X]	[X]	[X]	[X]	[X]
Kensington & Chelsea	[X]	[X]	[X]	[X]	[X]	[X]
Kingston upon Thames	[X]	[X]	[X]	[X]	[X]	[X]
Lambeth	[X]	[X]	[X]	[X]	[X]	[X]
Lewisham	[X]	[X]	[X]	[X]	[X]	[X]
Merton	[X]	[X]	[X]	[X]	[X]	[X]
Newham	[X]	[X]	[X]	[X]	[X]	[X]
Redbridge	[X]	[X]	[X]	[X]	[X]	[X]
Richmond upon Thames	[X]	[X]	[X]	[X]	[X]	[X]
Southwark	[X]	[X]	[X]	[X]	[X]	[X]
Sutton	[X]	[X]	[X]	[X]	[X]	[X]
Tower Hamlets	[X]	[X]	[X]	[X]	[X]	[X]
Waltham Forest	[X]	[X]	[X]	[X]	[X]	[X]
Wandsworth	[X]	[X]	[X]	[X]	[X]	[X]
Westminster	[X]	[X]	[X]	[X]	[X]	[X]
Total	[X]	[X]	[X]	[X]	[X]	[X]

Source: CC estimates based on data from the main parties, City Car Club and Hertz.

## Density competition

### Proximity analysis

50. We analysed the proximity of the different car clubs' parking spaces to each other across London boroughs to examine whether the main parties, Zipcar and Streetcar, are close competitors on that dimension of competition.

51. Looking at the average distance between the two car clubs across their networks within London, we find that:

- the average distance from a Zipcar car to the nearest Streetcar car is 0.2 miles and

- the average distance from a Streetcar car to a Zipcar car is 0.7 miles in overlap boroughs.

### *Data and methodology*

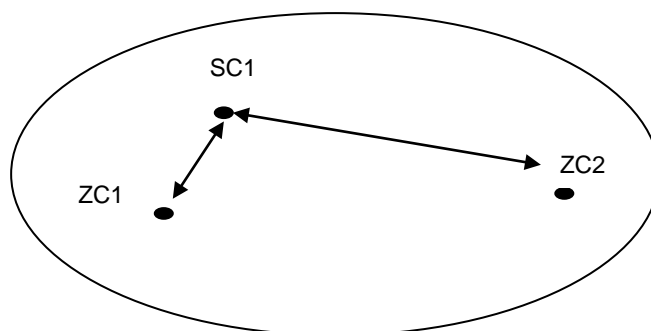
52. Streetcar, Zipcar, City Car Club and Hertz provided latitude and longitude information for all of their on- and off-street parking spaces.
53. In order to estimate how close the different car clubs' parking spaces<sup>14</sup> were to each other we first plotted their locations in GIS software.
54. Then we used these coordinates to determine which London borough each parking space was located within.<sup>15</sup> Next, for each car club, we calculated the straight-line distance from their own parking location to the nearest parking location of each of their competitors. So, for example, we took each Streetcar parking location within each London borough, say Hackney, and calculated the distance to the nearest parking location of Zipcar, City Car Club and Hertz (which might or might not be located within the same borough). Using the example in the diagram below for Streetcar's parking location SC1 we would record the distance SC1–ZC1 as this is the shortest (see Figure 2).

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<sup>14</sup>We used data on 'locations'. A location may consist of one space or several spaces (eg a set of parking spaces in a car park or on a road). In this section of this appendix we use the terms 'location' and 'space' interchangeably.

FIGURE 2

**Graphical illustration of the CC's methodology—establishing distance pairs**

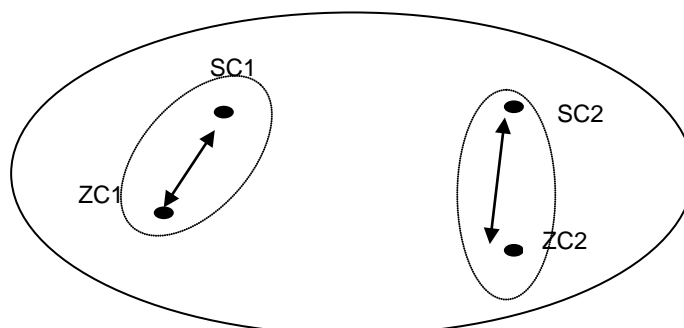


Source: CC.

55. Then, for each borough we calculated the *average* distance between the parking locations within that borough and the nearest parking location of each of the other operators. In other words we calculated, for each London borough, the average distance from each of Streetcar's parking spaces within that borough to the nearest parking space operated by Zipcar, City Car Club and Hertz. For example, as shown in Figure 3, for Streetcar we would first take the shortest distance from each of its parking spaces SC1 and SC2. In this case for SC1 it would be the distance SC1–ZC1 and for SC2 it would be the distance SC2–ZC2. We would then take the average of these two figures, eg the average of SC1–ZC1 and SC2–ZC2.

FIGURE 3

**Graphical illustration of the CC's methodology—averaging**



Source: CC.

56. We found that:
- in terms of proximity of parking spaces, there are 14 boroughs where Streetcar and Zipcar overlapped. Of these, there were seven boroughs where Zipcar's parking spaces were closer, on average, to parking spaces of Streetcar than to those of City Car Club and Hertz;<sup>16</sup> and
  - Streetcar was Zipcar's closest competitor (in terms of proximity of spaces) in 13 out of 14 boroughs in which both Streetcar and Zipcar operated. 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.
57. One interpretation is that the shortness of the distance between parking spaces is a measure of the closeness of competition between these two firms in a given borough.
58. However, such results must be treated with caution. There are a number of caveats around our methodology and we place limited weight on the results in consequence. Those caveats include:
- the analysis calculates the straight-line distance rather than a walk-time, ie it does not take into account road shapes, bridges etc;
  - this analysis only considers the closest competitor and does not take into account the number of competitor parking spaces within that borough. For example, it may be the case that Hertz is the closest competitor with one parking space although Zipcar has four spaces in a particular borough;<sup>17</sup>
  - the analysis centres on the parking space rather than actual and potential car club members. For example, the analysis may show Streetcar and Zipcar being each other's closest competitors, although for residents in the shaded area in Figure 4 Streetcar and City Car are closer rivals. This is a common problem with this type

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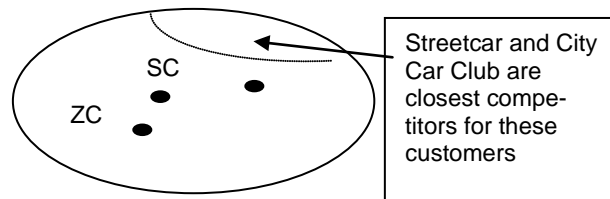
<sup>16</sup>Of the 30 London boroughs considered there were eight where Zipcar had the shortest average distance to Streetcar.

<sup>17</sup>The analysis does not account for differences in variances.

of analysis which we would normally try to overcome by centring on population densities. In this case it is not possible given that our analysis is borough-based and member demand for vehicles may be driven by their work location and other factors.

FIGURE 4

**Possible caveats to the proximity analysis**



Source: CC.

- Quoting per-borough results gives equal weight to each London borough, whereas different boroughs have different populations and different levels of attractiveness for car club operations.
59. The main parties noted that this analysis provided a static view of an industry segment, which—by virtue of the early stage of its development—they argued was highly dynamic and likely to continue to grow rapidly. We agree that our analysis provides only a snapshot of the market. However, we believe that this snapshot provides us with a guide to the closeness of competition between the main parties to date and the strength of the constraint that has been lost as a result of the merger. We consider whether the effect of this loss would persist in future in our assessment of entry and expansion in the market.

## Results

TABLE 20 Average distance to competitor parking spaces—Zipcar

Overlap borough	Borough	Average distance from Zipcar (miles)			Streetcar closest competitor
		City Car Club	Hertz	Streetcar	Yes(1)/no(0)
✓	Brent	0.24	0.80	0.19	1
✓	Camden	0.18	0.16	0.04	1
✓	City of London	0.81	0.11	0.12	0
✓	City of Westminster	0.64	0.27	0.17	1
✓	Greenwich	2.46	1.21	0.75	1
✓	Hackney	0.38	0.68	0.05	1
✓	Hammersmith & Fulham	0.78	0.79	0.15	1
✓	Islington	0.57	0.40	0.08	1
✓	Kensington & Chelsea	0.12	0.62	0.10	1
✓	Lambeth	0.33	1.43	0.12	1
✓	Richmond upon Thames	0.39	1.92	0.07	1
✓	Southwark	0.34	0.30	0.10	1
✓	Tower Hamlets	0.38	0.37	0.14	1
✓	Wandsworth	1.16	1.19	0.09	1
	Average	0.63	0.71	0.17	

Source: CC estimates based on data from the main parties, City Car Club and Hertz.

Note: Reported is the average (shortest) distance of Zipcar's location to other car clubs.

TABLE 21 Average distance from Streetcar in overlap boroughs

Borough	miles		
	City Car Club	Hertz	Zipcar
Brent	0.77	1.10	0.78
Camden	0.19	0.60	0.76
City of London	0.74	0.21	0.16
City of Westminster	0.60	0.22	0.16
Greenwich	2.29	1.92	1.50
Hackney	1.41	1.48	1.24
Hammersmith & Fulham	0.64	0.76	0.19
Islington	0.77	1.42	1.10
Kensington & Chelsea	0.12	0.65	0.13
Lambeth	0.41	2.01	0.41
Richmond upon Thames	0.45	1.70	0.93
Southwark	0.71	1.57	0.93
Tower Hamlets	0.47	0.35	0.28
Wandsworth	1.33	1.01	0.66
Average	0.78	1.07	0.66

Source: CC estimates based on data from the main parties, City Car Club and Hertz.

**Theories of harm 2 and 3: Loss of competitive bidding for local authority tenders and increased barriers to entry—additional evidence**

1. We found that local authorities derived various benefits from having competing bidders for their tendering processes.
2. For example, seven companies submitted details at the pre-qualification phase for Westminster City Council's tender to operate the Westminster City Car Club. Three proceeded to the final stages of the tendering process (13) where the council assessed the bids on three weighted categories of criteria (see Table 1 below). Of the three bidders, Zipcar was the most economically advantageous and won the tender. As a result of this competitive process, Zipcar (13).
3. Waltham Forest similarly invites multiple car club operators to bid to be the sole operator of on-street spaces in its borough. It assesses the bids using weighted criteria, and told the CC that boroughs would intrinsically seek what was best for their residents and consider a number of factors to find the best operator for the borough (see Table 1).

TABLE 1 London boroughs' criteria for distributing parking spaces to car club operators

Borough	Single operator	Tender	Criteria for allocating on-street bays
Barking & Dagenham	1	✓	Not known
Brent	0	X	Demand-led distribution with competitors not put on the same street
Bromley	0	X	No strict criteria with bays distributed in consultation with relevant developers
Camden	0		Carplus accreditation, correct application forms, maps, performance, good model for delivery, evidence of bay usage and references
Ealing	0	X	Rolling system where the bay will be offered to one operator and the next bay to the next on the list. Refusal of a bay results in the turn being forfeited.
Enfield	1	✓	Will use the following for 2011: approach & set-up (15%), cost competitiveness (10%), environmental impact (5%), vehicle fleet (5%), marketing & promotion (15%), projections (8%), monitoring proposals (8%), experience of setting up car clubs (8%), references (12%), personnel (5%), timescales (5%), value added (4%)
Greenwich	1	✓	Carplus accreditation, correct tender documentation, health & safety certificate, number of cars at launch and projected total number, business plan, booking system, marketing plans, monitoring systems, development plan, partnership working proposals, equal opportunities, air quality issues, current publicity, pricing structure, company history
Hackney	1	✓	Carplus accreditation, members' terms and conditions, marketing plans, performance/track record, equality policy, innovation and fees
Haringey	1	✓	Charges, marketing plans, current performance (number of vehicles in London and elsewhere), booking and access technology, environmental considerations
Hounslow	1	N/K	Spaces decided in discussion with current operator
Islington	1	N/K	Carplus accreditation, fees, terms and conditions, marketing, performance, booking and access technology, maintenance, environmental considerations, equalities and innovation
Kensington & Chelsea	0	N/K	All operators who wanted to provide a service were provided with new bays equally
Kingston upon Thames	1	✓	Carplus accreditation, pricing structure, type of cars, environmental considerations, customer service, past performance and presence in neighbouring boroughs
Lambeth	0	✓	Carplus accreditation, proposed locations, network coverage, marketing and promotion plans, membership within the borough, usage of existing bays. Bays for which more than one operator is interested require a competitive tender from the car clubs.
Lewisham	1	X	Operation not big enough for a tender. Consults Streetcar to understand where to install new bays.
Merton	0	✓	Not known
Newham	N/K	X	Policy being considered, but currently based on requests from operators
Redbridge	1	N/K	Contract with Streetcar until 2011. Preparing for a competitive tender, but details have not yet been decided and likely to assess quality of service.
Richmond upon Thames	0	X	Carplus accreditation and willingness to agree to conditions
Southwark	1	✓	Carplus accreditation, performance (London membership) (50%), rates and charges (20%), marketing plans (10%), booking and access technology (10%), maintenance (5%), environmental impact (5%)
Sutton	1	N/K	May review at end of current contract at end of 2012
Tower Hamlets	0	N/K	Carplus accreditation
Waltham Forest	1	✓	Cost competitiveness (10%), environmental impact (10%), vehicle fleet (5%), marketing and promotion plans (18%), projections (8%), monitoring proposals (8%), previous experience (5%), references (15%), personnel (5%), timescales (10%), value added (6%)
Wandsworth	1	✓	Carplus accreditation, rates and charges, terms and conditions for members, marketing, performance information from existing and prior car club schemes, booking and access technology, maintenance, quality of vehicles, environmental considerations
Westminster	1	✓	Service quality, including vehicle, management, membership, marketing and innovation plans (40%), financial—including the amount the car club was willing to pay for each on-street space (50%), legal (10%)
Total	15		

Source: CC analysis of data provided by London boroughs.

Notes:

1. SC = Streetcar, ZC = Zipcar, CCC = City Car Club.
2. Barnet, Bexley, City of London, Croydon, Hammersmith & Fulham, Harrow, Havering and Hillingdon do not provide on-street parking bays to car clubs.
3. Hammersmith & Fulham is in the process of running a trial scheme.
4. Enfield policy not known but it has only one operator in the borough.
5. Newham policy is not known. Its policy is being considered.

TABLE 2 London boroughs provision of on-street parking bays—bidding data

Borough	No of bays	Bid for contract or active in area				Winner
		Streetcar	Zipcar	City Car Club*	Hertz	
Barking & Dagenham	8	✓				SC
Brent	46	✓	✓	✓		SC, ZC, CCC
Bromley	1			✓		CCC
Camden	156	✓	✓	✓	✓	SC, CCC, Hertz, ZC
Ealing	77	✓		✓	✓	SC, CCC, Hertz
Enfield	0	✓				SC
Greenwich	24	✓		✓		SC
Hackney	112	✓	✓	✓		SC
Haringey	67	✓		✓		SC
Hounslow	16	✓				SC
Islington	198	✓		✓		SC
Kensington & Chelsea	197	✓	✓	✓		SC, ZC, CCC
Kingston upon Thames	17	✓		✓		SC
Lambeth	73	✓	✓	✓		SC, ZC, CCC
Lewisham	43†	✓				SC
Merton	18	✓		✓		SC, CCC
Newham	1				✓	Hertz
Redbridge	9	✓				SC
Richmond upon Thames	106	✓	✓	✓		SC, ZC, CCC
Southwark	88	✓	✓		✓	SC
Sutton	10	✓		✓		SC
Tower Hamlets	170	✓	✓	✓	✓	SC, ZC, CCC, Hertz
Waltham Forest	17	✓	✓		✓	SC
Wandsworth	31‡	✓	✓	✓		SC
Westminster	100	✓	✓		✓	ZC

Source: CC analysis of data provided by London boroughs and the main parties.

\*Includes Whizzgo.

†Includes off-street parking.

‡20 bays in situ plus 11 bays September 2010.

Notes:

1. SC = Streetcar, ZC = Zipcar, CCC = City Car Club.

2. Barnet, Bexley, City of London, Croydon, Harrow, Havering and Hillingdon do not provide on-street parking bays to car clubs. Hammersmith & Fulham is allocating four bays as part of a pilot scheme.

3. Hammersmith & Fulham is in the process of running a trial scheme.

TABLE 3 London boroughs' criteria for distributing parking spaces to car club operators and potential merger concerns

	<i>On-street provision available?</i>	<i>Conditions of allocations of on-street parking to new operators</i>	<i>Is it easier for the merged entity to obtain spaces?</i>	<i>Negative impact of the merger?</i>
Barking and Dagenham	✓	No response	No change	No impact as SC only contracted operator. Enable pool of wider source of vehicles
Barnet	X	N/A	N/A	Cannot say at this stage
Bexley	X	N/A	N/A	N/A
Brent	✓	Well-run outfit, considered as any other car club	No	No.
Bromley	✓	Being credible. New operators would not be excluded.	No	Possibly, concerned that the reduced number of competitors will make it more difficult to get an operator for new developments
Camden	✓	Carplus accredited, business model in place	No	The merger should not make an impact as there are other operators in the market
City of London	X	N/A	N/A	Outside its remit to answer
Croydon	X	N/A	N/A	No, because there is currently just one operator in Croydon. However, there would be value in having more than one provider in the borough.
Ealing	✓	Accredited to be suitable	No change	No. Should increase Zipcar's activity in borough.
Enfield	✓	All can apply when tendering	No change	Yes. Streetcar already dominates in London so the merger may not have any immediate impact. However, the absence of competition may have an impact on costs for the end-user over time.
Greenwich	✓	Carplus accredited, considered as any other car club	No change	It remains to be seen if the merger has any effect on service delivery quality
Hackney	✓	No special criteria, same as for existing operators	The merger of Streetcar and Zipcar will not change the service delivery in the immediate future. Hackney will continue to operate with Streetcar until further information is provided regarding the merger of the two companies.	No
Hammersmith & Fulham	X	N/A		Unclear, on the one hand members of each club would get access to more locations, on the other risk of a monopoly
Haringey	✓	All Carplus accredited operators can apply at re-tendering	No	No. It would only be concerned if the merged entity significantly increased prices, but this will not happen as the attractiveness of the service would drop.
Harrow	X	N/A—process has not begun	No change	Competition is less. Not affected us at this stage.
Havering	X	N/A	N/A	No, because there is currently just one operator in Havering
Hillingdon	X	Meet council's minimum operating requirements	N/A	No response

	<i>On-street provision available?</i>	<i>Conditions of allocations of on-street parking to new operators</i>	<i>Is it easier for the merged entity to obtain spaces?</i>	<i>Negative impact of the merger?</i>
Hounslow	✓	All considered as part of competitive tender process	No change	No. Other car clubs active. Car clubs relatively new concept and entry presumably reasonably easy, although Streetcar made significant investment in its systems and advertising.
Islington	✓	No new operator can obtain on-street bays at the moment because of a single operator arrangement with Streetcar, but multi-operator arrangement may be explored in the future	N/A	No. New types of car clubs are likely to enter once the current pioneering car clubs turned a regular profit.
Kensington and Chelsea	✓	New operators would be considered if the borough decided to expand the allocations of bays	N/A	The merger would create a dominant operator in London and combine the two operators that were expanding most dynamically
Kingston upon Thames	✓	No special criteria. New operators will be able to bid at the contract renewal.	The merged company may be in a stronger position because of the increased number of cars and members	No. The merger will increase the choice of vehicles to existing Streetcar members; although concerned about potential changes to the pricing structure and replacing a strong Streetcar brand with weaker Zipcar brand.
Lambeth	✓	No special criteria. Currently has two new applicants for entry and considers both as credible.	Lambeth wants to see balanced networks so may favour other operators if the merging parties reached a certain level	Concerned that the size of the membership of the merged entity can make it more attractive for other consumer to join and put off smaller companies from operating in Lambeth
Lewisham	✓	Any organization complying with Lewisham's procurement policy	No	No.
Merton	✓	N/A	Not tested	No.
Newham	✓	Policy being considered	Contingent on future policy	No due to current low level of demand in borough. In Greater London market appears to be contestable.
Redbridge	✓	New operators could be considered for a new contract. Would need to be able to run the whole borough scheme.	All new spaces will be allocated to Streetcar under existing contract. New contract has not been yet decided.	No. Redbridge car club users will benefit from a wider network of cars across London.
Richmond upon Thames	✓	CarPlus accredited. Operator sign up to conditions as current operators.	No change	No. Still be competition for supplying car clubs.
Southwark	✓	New operators would be considered on their merit if the Council was in the position of tendering a contract	Yes, as existing membership is an important criterion in deciding to award a contract	Not qualified to answer.
Sutton	✓	N/A	N/A	Not in Sutton, but may increase the merged entity's monopoly in London, but can also be good for continuity and customer service

	<i>On-street provision available?</i>	<i>Conditions of allocations of on-street parking to new operators</i>	<i>Is it easier for the merged entity to obtain spaces?</i>	<i>Negative impact of the merger?</i>
Tower Hamlets	✓	Carplus accredited operators would be considered	No	Not known.
Waltham Forest	✓	All invited to tender if accredited	Possibly more difficult as ZC/SC have largest existing membership base and it would be prudent for borough not to consider this	Yes. Fewer operators to choose from. However, being a big company does not necessarily mean that they are not the best (or even that their prices are the highest), and there are lots of factors that are considered when deciding on the best operator for the borough. The issue is that boroughs will intrinsically seek what is best for their residents/visitors etc, but this is not always what is best from a wider perspective. TfL could possibly take more of a role in ensuring more competition between operators, and/or encouraging operators to work together so that members of one operator can use vehicles belonging to another operator and vice versa.
Wandsworth	✓	Carplus accredited operators would be considered	No. The merged entity will not be able to obtain as many spaces as the combined total of the two parties had they remained separate.	Possibly in the UK as the merging parties are the two largest companies and the merger may lead to them being dominant, but not in Wandsworth as it is moving toward a multi-operator environment
Westminster	✓	No new operator can obtain on-street bays at the moment because of a single operator contract with Zipcar, but any operator may apply for any future contract	N/A	No. Westminster had 7 companies submitting details at the pre-qualification stage and is confident that there will be entry in the future.

Source: CC analysis of information provided by the London boroughs.

## Entry—additional evidence

### Scale advantages

1. Carplus suggested that the minimum viable scale for an operator investing in developing a new conurbation car club would be its ability to sustain 20 vehicles. Mobility suggested that the need to reach a minimum scale was a barrier to entry, although it did not specify what that minimum scale would be. Avancar told us that, while economies of scale and scope existed and a successful commercial operation with five cars was unlikely, successful entry was nonetheless possible with a relatively small number of cars if the entrant focused well in terms of geography and the target clients. [REDACTED] told us that obtaining sufficient scale was a barrier to entry for a new car club provider, although, like Mobility, did not specify what scale would be sufficient. Hertz suggested that an entrant needed to reach a scale of at least 150 to 200 vehicles to be efficient and cover its overheads.
2. Greenwheels told us that there were two different economic models for running car clubs. A stand-alone operation such as Greenwheels, Zipcar or Streetcar needed at least 500 to 1,000 cars to be profitable. According to Greenwheels, car rental companies such as Hertz, which run car club services in addition to their car rental business, might not need as many cars to be profitable as such operations would only need to cover the incremental cost of the car club business over the car rental business.
3. Table 1 shows the main parties' costs of member acquisition.<sup>1</sup> It suggests that Streetcar's costs of acquiring new members [REDACTED].

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<sup>1</sup>While the marketing spend divided by number of new members is not an exact measure of the main parties' costs of acquiring new members, we consider that it is a good proxy.

TABLE 1 Main parties' costs of member acquisition

	2007 Actual	2008 Actual	2009 Actual
<i>Streetcar</i>			
Cost of member acquisition	[£]	[£]	[£]
<i>Zipcar</i>			
Cost of member acquisition	[£]	[£]	[£]

Source: Streetcar, Zipcar.

4. Zipcar attributed the [£] to a number of factors including [£]. Zipcar told us that its parking costs were [£].

### Network effects

5. We considered whether there were any reasons why potential entrants might need to enter on a larger scale, for example, due to the presence of strong network effects.
6. We examined whether consumers valued a network of services and found that over half of Streetcar and Zipcar members booked a vehicle at least once in more than one borough (see Table 2). Information from Zipcar suggested that [£] per cent of all bookings were outside the member's registered 'home' borough.<sup>2</sup> In addition, 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.<sup>3</sup>

TABLE 2 Multi-borough bookings

	per cent	
	Zipcar	Streetcar
Booking only within 'home' borough	[£]	[£]
Booking at least once outside 'home' borough	[£]	[£]

Source: Main parties.

<sup>2</sup>Zipcar told us that [£] per cent of customers made a booking for a car outside their home borough and that these customers made bookings within their home borough [£] per cent of the time. The [£] per cent figure was derived from this information (ie [£] assuming that customers who made bookings outside their home borough made on average the same number of bookings as customers who do not. We do not have similar information for Streetcar.

<sup>3</sup>CC survey, Q15 and Q16.

7. Network effects were also considered when tendering for parking bays. For example, Waltham Forest stated that 'there are clear benefits to both Streetcar and borough residents of expanding coverage to match that of surrounding boroughs including Haringey and Redbridge'. Further, despite discussing the locations of potential council-owned off-street locations with [X] Council, Zipcar ultimately decided not to obtain any spaces due to their distance from the nearest existing Zipcar location.

### **Economies of density**

8. City Car Club argued that car clubs primarily competed on the location of their cars and it was considered vital to be the car club able to offer a car closest to potential members. While consumers were prepared to walk up to 10 minutes to reach a vehicle, they would be likely join the car club with the closest vehicle rather than walk further than necessary (for example, a consumer would join the car club with a vehicle just two minutes away rather than consider car clubs with vehicles further out but still within 10 minutes walking distance). City Car Club explained that it was now focused on increasing its network density rather than its geographic spread as a result of being unable to obtain on-street parking bays in sole operator boroughs in which it was restricted from operating.
9. Hertz told us that achieving a critical mass of cars, members and utilization was important for the success of a car club and could be achieved by creating a network of vehicle groupings to ensure that vehicles were neither over- nor underutilized. When a car becomes too heavily utilized (ie members per car reach 50 to 55), Hertz adds another car within a 10-minute walking distance and promotes this new car heavily in an adjoining area. Hertz told us that it used a map which showed overlaps in the form of 10-minute walk circles and built up its business by creating a network of such circles.

10. Greenwheels told us that it prioritized density over the geographical spread of its network and that a dense network of cars was extremely important for car club operators. In a recent survey, Greenwheels found that 92 per cent of its customers were satisfied with and valued the density of its network.
11. Greenwheels also told us that there was a first-mover advantage in having a dense network in place before other entrants. Consumers considered both the nearest car and the next nearest car (in case the preferred car was unavailable) when deciding which car club to join. Therefore, according to Greenwheels, while the first consideration should allow any provider within close proximity of the customer to compete, the second gives an advantage to companies with denser networks.

## **Marketing**

12. [REDACTED] told us that obtaining brand recognition was a barrier to entry for a new car club provider.
13. Hertz told us that entry into the car club market involved 'a very, very big marketing spend' relative to the size of the fleet and the size of the business. Any entrant would need 'deep pockets' for two to four years.
14. We analysed the main parties' profit and loss accounts and found that advertising represented [REDACTED] per cent of the total cost for Zipcar and [REDACTED] per cent for Streetcar. We did not have similar information for other car club companies.

TABLE 3 Main parties' cost structure

	£	Proportions %
<i>Streetcar 2009</i>		
Car insurance	[X]	[X]
Fuel	[X]	[X]
Parking	[X]	[X]
Accidents and repair	[X]	[X]
Duties	[X]	[X]
Car depreciation	[X]	[X]
Other direct car costs	[X]	[X]
Marketing	[X]	[X]
Staff costs	[X]	[X]
Overheads	[X]	[X]
Other	[X]	[X]
Total	[X]	[X]
<i>Zipcar 2009</i>		
Car insurance	[X]	[X]
Fuel	[X]	[X]
Parking	[X]	[X]
Accidents and repairs	[X]	[X]
Car maintenance	[X]	[X]
Car lease	[X]	[X]
Other direct car costs	[X]	[X]
Marketing	[X]	[X]
Members services	[X]	[X]
Overheads	[X]	[X]
Other	[X]	[X]
Total costs	[X]	[X]

Source: Main parties.

*Notes:*

1. The data for Zipcar was provided in US\$. We used the exchange rate as published by the *Financial Times* on 14 September 2010.
2. We carried out some transformation of the cost categories of both companies to ensure that they are as comparable as possible. This involved some renaming and merging of the categories.

## Access to funding

15. Hertz told us that access to finance could be a barrier to entry as the likelihood of a car club being loss-making for a number of years might not be an attractive proposition for financial institutions. Carplus told us that access to capital was a barrier to entry whilst the market developed to a point where business was financially viable (ie profit making). Mobility told us that access to finance was a barrier to entry into car club operation.
16. The main parties submitted that the revenue corresponding to a 5 per cent market share was approximately £[X] million. Based on Streetcar data showing an average spend of £[X] per member and using a ratio of [X] members per car, generating this revenue would require over [X] members and a fleet size of approximately [X] cars.

The total investment required to achieve such a market share would be £[redacted], [redacted] per cent of which was recoverable.

17. We asked third parties what a potential entrant needed to do to become successful in the car club market. Hertz told us that it would take approximately [three to five] years to achieve a profitable car club business with a 5 to 10 per cent market share. Hertz told us that the fixed costs of the operation were such that Connect by Hertz needed to attract [30 to 50] active members per car who rented the vehicle 1.5 times per month for 5 hours on each occasion to cover the fixed and variable costs of operating. According to Hertz, the [three to five] year estimate was based on current projections and its understanding that it would take this period of time to increase its size of membership and gain access to cheaper on-street parking.
18. City Car Club told us that its target was to achieve at least 50 members per car, a revision upwards from an initial target of 30 and an intermediate target of 40 members per car.

## **Access to parking**

### ***The main parties' views on the importance of on-street parking***

19. The main parties' internal documents up to 2007 indicated that access to on-street parking spaces was very important. For example, Zipcar noted that [redacted].<sup>4</sup>
20. Streetcar regarded on-street parking as important in terms of [redacted].<sup>5</sup>
21. We noted that some of this evidence came from 2007, and the main parties argued that their views had evolved since then.

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<sup>4</sup>[redacted]  
<sup>5</sup>[redacted]

### ***Third parties' views on the importance of on-street parking***

22. Hertz told us that on-street bays were a key competitive advantage, particularly in London, and made it easier for a car club to be profitable. On-street spaces were considerably cheaper than off-street car parking and reduced marketing costs as the vehicles were more visible to the public (Hertz described this as 'free marketing'). On-street car parking spaces were also primarily located in residential areas and allowed vehicles to be located nearer to users.
  
23. Hertz noted that Streetcar had benefited from first-mover advantage and had secured the largest number of on-street bays in London. Further, according to Hertz, local authorities overwhelmingly favoured car clubs with an existing network of members when deciding how to allocate on-street parking bays, which reinforced the position of the dominant competitor.
  
24. City Car Club argued that the key driver of growth in London was availability of new parking spaces. Avis told us that there was a first-mover advantage in being able to get good parking sites. Mobility told us that availability of parking spaces was a barrier to entry in the car sharing market. Avancar suggested that, in certain areas, the availability of parking bays might be the limiting factor with respect to entry and considered that the way parking bays were contracted might need to be analysed. [REDACTED] told us that local councils were reluctant to allocate parking spaces to a new entrant and considered that the current environment did not support entry. [REDACTED] told us that obtaining sufficient spaces in good locations was a barrier to entry. Greenwheels told us that on-street parking had the advantage of making vehicles highly visible to consumers and being nearer consumers than off-street parking.
  
25. Carplus told us that finding suitable parking locations close to the market car clubs wanted to serve was a barrier to entry. It noted that the entry of Zipcar and Connect

by Hertz in London had intensified competition, particularly in those boroughs which had multi-operator arrangements for on-street parking. Carplus noted that a new car club operator could demonstrate its operating capability using off-street locations before bidding for on-street bays. Carplus further stated that outside London, car clubs established themselves through partnerships with local authorities.

26. TfL told us that the availability of both on- and off-street bays in prime locations had restricted the proliferation of car clubs in London. According to TfL, local authorities had only recently begun to distribute on-street parking and this had prompted car clubs to expand more aggressively.
27. TfL said that the desirability of bays depended on their accessibility to consumers (for example, a location in the basement of a car park may not be viewed as easily accessible by consumers), while the visibility of on-street locations provided a good marketing opportunity.

### ***Relative cost of on-street and off-street parking***

28. We obtained average monthly costs for on- and off-street parking spaces from the main parties and Connect by Hertz<sup>6</sup> which indicated that for all three companies off-street parking was considerably more expensive than on-street. The average cost for off-street parking for Streetcar and Hertz was around [redacted] times that of on-street spaces, [redacted].<sup>7</sup>

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<sup>6</sup>We note that these costs include [redacted].

<sup>7</sup>We note that Zipcar considered that [redacted].

TABLE 4 Comparison between parties' on-street and off-street parking costs in London

	Streetcar		Connect by Hertz		Zipcar		
	On-street	Off-street	On-street	Off-street	On-street including Westminster	On-street without Westminster	Off-street
Average monthly cost of a parking space (£)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: Main parties, Connect by Hertz.

29. We found that Streetcar currently paid [redacted].

30. [redacted]<sup>8</sup>

31. We found that Zipcar [redacted]. However, we note that [redacted] for parking spaces owned by private individuals [redacted].

32. The main parties told us that the price difference between off-street and on-street parking was narrowing. Further, Streetcar said that the permit fee charged by local authorities should not be considered as the total cost of on-street parking, as there were other costs associated with on-street parking, including administration costs (ie dealing with the local authority), break-in cover (due to being in a more public location), out-of-location issues<sup>9</sup> and set-up costs (which have totalled more than £[redacted] to date for Streetcar).

33. TfL told us that local authorities were restricted in what they could charge for on-street parking spaces by the 1984 Road Traffic Regulation Act. On reviewing the relevant legislation, we found that the legislation did not impose any direct constraints on the level of charges for on-street parking spaces, however, the legislation required that the charges must be raised for the purposes of traffic management, and might

<sup>8</sup>City Car Club suggested that the best boroughs for car clubs had a high population density and a good level of public transport infrastructure. These were more likely to be inner London boroughs.

<sup>9</sup>This refers to the on-street bay being used, illegally, by other drivers resulting in the Streetcar vehicle being parked elsewhere. This then requires Streetcar to move the car from its temporary parking slot back into the proper on-street bay.

not be used as a local tax or for general revenue purposes. The legislation did not therefore prevent local authorities from setting charges at a level higher than the costs of providing the bay, or higher than the cost of off-street parking, for example, where demand for bays was high.

### ***Distribution of on-street parking between competitors***

34. We only had quantitative information on allocation of on-street and off-street parking spaces for the main parties and Connect by Hertz. It appeared from the information available that Streetcar and Zipcar had a similar proportion of on-street parking spaces while Connect by Hertz had a significantly lower proportion of on-street parking spaces and City Car Club significantly higher (see Table 5).

TABLE 5 **Car clubs' proportions of on-street and off-street parking**

								<i>per cent</i>
<i>Streetcar</i>		<i>Zipcar</i>		<i>Connect by Hertz</i>		<i>City Car Club</i>		
<i>On-street locations</i>	<i>Off-street locations</i>	<i>On-street locations</i>	<i>Off-street locations</i>	<i>On-street locations</i>	<i>Off-street locations</i>	<i>On-street spaces</i>	<i>Off-street spaces</i>	
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	

Source: Main parties, City Car Club, Connect by Hertz.

### ***Allocation of on-street parking by local authorities***

35. Table 6 shows a summary of London boroughs' future plans for expanding the number of on-street spaces available to car clubs.

TABLE 6 London borough expansion plans

<i>Borough</i>	<i>Expansion plans</i>
Barking and Dagenham	No response
Bexley	No response
Brent	✓ 12 bays per year if it gets funding
Bromley	✓ Further bays will become available via the planning process and is investigating the potential of further provision through the review of controlled parking zones
Camden	✓ Further bays dependent on demand and available spaces
City of London	None
Croydon	No specific plans at present
Ealing	✓ Aspirations to expand car clubs in the borough over the next few years, with a target to increase the number of bays from 77 to 93 by 2013
Enfield	None
Greenwich	✓ Plans to add a further 30 spaces early 2011, subject to member approval
Hackney	✓ Intends to implement many more car club bays in next 3 years but the exact number depends on the funding available
Hammersmith and Fulham	✓ Proposal for 4 on-street bays in 2010 as part of its pilot scheme
Haringey	✓ Plans 90 bays by April 2011 and 130 bays by April 2012. Has funding from TfL (£50,000 in 2009/10 and £50,000 in 2010/11) to expand and has provisionally allocated a further £30,000 for 2011/12 and £20,000 in 2012/13 for car club expansion.
Harrow	None
Havering	None
Hillingdon	None
Hounslow	✓ Hopes to have 50 on- and off-street bays in next 3 years
Islington	✓ Recently expanded to 198, and aims to add 50–75 bay a year (note: currently all allocated to Streetcar as part of the current contract)
Kensington and Chelsea	No immediate plans but will consider expansion
Kingston upon Thames	✓ Plans up to an additional 10 bays by end of current financial year and has proposals in its draft Local Implementation Plan for approximately 10 new bays per year for the next 3 years
Lambeth	✓ Plans to add approximately 100 bays within the next financial year
Lewisham	None unless external funding is available
Merton	✓ Will continue to identify spaces (no number specified)
Newham	✓ Yes, in response to demand from operators
Redbridge	✓ Hoping to add a further 8 bays in the next 6 months (note: bays allocated before February 2011 will go to Streetcar)
Richmond upon Thames	Will respond to demand and either increase or decrease the number of bays as required
Southwark	✓ Expects the number of spaces to increase in order to improve the spread of bays across the borough. In addition, there are commitments to provide spaces contained within planning conditions of major developments within Southwark.
Sutton	✓ Will add 10 new bays
Tower Hamlets	Subject to discussions between Council and the relevant car club operators
Waltham Forest	✓ Plans an additional 15 bays
Wandsworth	✓ Councillors will shortly be considering a strategy that seeks expansion, initially to about 140 bays and up to several hundred thereafter. These bays will be available for multiple operators
Westminster	✓ Planning to expand the Westminster City Car club fleet by another 100 vehicles by May 2011 (operated by Zipcar). The aim is to have 400 vehicles by 2013, but this is dependent on the success of the current scheme.

Source: CC analysis of data provided by London boroughs and the main parties.

Note: Barnet, Bexley, City of London, Croydon, Harrow, Havering, and Hillingdon do not provide on-street parking bays to car clubs.

TABLE 7 Potential entrants into car club market

Potential entrant	Type of company	Plans to enter in the UK	Comments
Greenwheels	Foreign car club operator	Yes	Was planning to enter London this year and has started accreditation process with Carplus [REDACTED]
Cambio	Foreign car club operator	No	No plans to enter the UK in the foreseeable future
[REDACTED]	[REDACTED]	Possibly	[REDACTED]
Avancar	Foreign car club operator	No	Zipcar is a minority shareholder
[REDACTED]	[REDACTED]	Yes	[REDACTED]
[REDACTED]	Domestic potential entrant	Possibly	Entry would be on a very small scale. Does not plan to get Carplus accreditation. Finds getting car parking very difficult.
[REDACTED]	Car rental broker	No	The only way [REDACTED] would enter would be as an online broker for existing car club companies, ie offer the same services to car clubs as it offers to car rental companies
[REDACTED]	Car rental company	Possibly	Not sure yet whether to enter. If so, it would be in London in a year or two. Notes that London is more difficult to enter than the rest of the UK. The merger had no effect on its entry plans.
Avis	Car rental company	No	Already operated a car club in London, Urbigo. It was not run commercially and was shut down. Could possibly re-enter the car club market but has no definite plans at the moment in the UK.
[REDACTED]	Car rental company	No	[REDACTED] However, wants to focus on its core car rental business and has no current plan or intention to respond to the growth of car sharing. Has not considered entering the car club market.
Peugeot	Car manufacturer	Possibly	Peugeot currently operates 'Mu by Peugeot' in Chiswick and Bristol as part of a global pilot scheme. Members are able to purchase 'points' which allow them to rent cars. At this point, members can only pick up and return cars at designated dealerships. Peugeot will expand the scheme if the pilot is successful.
Woodgate Car Club	Community provider in Leicestershire	No	Small operator. No plans to expand.
Colwall Car Club	Community provider in Herefordshire	No	Small operator-run using volunteers. Different business model to Zipcar, Streetcar. Focuses on rural areas.

Source: CC analysis of information provided by relevant third parties.

## Glossary

<b>Act</b>	Enterprise Act 2002.
<b>Car club</b>	A commercial organization providing a network of readily accessible vehicles, parked in local areas, for hourly or daily rental. Vehicles may be accessed 24 hours a day, subject to availability. Car clubs are 'self-service' in that cars are picked up and returned to unmanned locations, and paperwork does not need to be completed for each rental period.
<b>Carplus</b>	A UK charity promoting responsible car use.
<b>CC</b>	Competition Commission.
<b>Community car club</b>	A <b>car club</b> run on a not-for-profit basis.
<b>Connect</b>	Connect by Hertz, a <b>car club</b> run by Hertz.
<b>Critical loss analysis</b>	Estimates the amount of lost sales that would make a price increase unprofitable, and then asks whether such a price increase would lead to such a loss of sales. It can be used as a tool to assist market definition by considering whether imposing at least a <b>SSNIP</b> on one or more products in a candidate market would raise or lower the hypothetical monopolist's profits.
<b>DfT</b>	Department for Transport.
<b>Diversion ratio</b>	The proportion of customers lost from one service as a result of a price increase or a decline in service levels who switch to a competing service.
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortization.
<b>Gross margins</b>	Value of sales (including VAT) less wholesale costs, expressed as a percentage of value of sales.
<b>Hypothetical monopolist test</b>	The hypothetical monopolist test is satisfied if a monopoly supplier of the products or services in question would find it profitable to raise prices.
<b>IPO</b>	Initial public offering.
<b>LIP</b>	Local Implementation Plan for transport. A document setting out a London borough's response to the requirements of the Mayor of London's Transport Strategy and the provisions of the Greater London Authority Act.
<b>Monitoring trustee</b>	Grant Thornton appointed by <b>Zipcar</b> with the agreement of the <b>CC</b> .
<b>OFT</b>	Office of Fair Trading.

<b>Off-street parking</b>	Parking bays obtained by <b>car club</b> operators through commercial negotiations with individual or corporate owners of private parking spaces.
<b>On-street parking</b>	Parking bays allocated to <b>car club</b> operators by local authorities on public streets.
<b>Overlap boroughs</b>	Those London boroughs in which both Streetcar and Zipcar operated before the merger, namely Brent, Camden, City of London, Greenwich, Hackney, Hammersmith and Fulham, Islington, Kensington and Chelsea, Lambeth, Richmond upon Thames, Southwark, Tower Hamlets, Wandsworth and Westminster.
<b>SLC</b>	Substantial lessening of competition.
<b>SSNIP</b>	Small but significant non-transitory increase in price.
<b>Streetcar</b>	Streetcar Limited.
<b>Zipcar</b>	Zipcar, Inc.
<b>Zipcar UK</b>	Zipcar UK Limited.