



# DETERMINATION OF MERGER NOTIFICATION M/14/035 - DALATA / WHITE'S HOTEL

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## Section 21 of the Competition Act 2002

### Proposed acquisition of White's Hotel Limited by Dalata Hotel Group p.l.c.

Dated 9 January 2015

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#### Introduction

1. On 28 November 2014, in accordance with section 18(1) of the Competition Act 2002, as amended ("the 2002 Act"), the Competition and Consumer Protection Commission ("the Commission") received a notification of a proposed transaction whereby Dalata Hotel Group p.l.c. ("Dalata") would acquire certain assets, namely White's Hotel, from White's Hotel Limited.

#### The Proposed Transaction

2. The proposed transaction is pursuant to (i) a Business Sale Agreement between White's Hotel Limited (in Receivership), Kieran Wallace of KPMG and DHGL Limited, and (ii) a Property Sale Contract between White's Hotel Limited (in Receivership), 19 named individuals and DHGL Limited.<sup>1</sup>

#### The Undertakings Involved

##### *The Acquirer - Dalata*

3. Dalata, headquartered in Sandyford in Dublin, is the holding company of the Dalata Hotel Group.<sup>2</sup> Dalata is involved, through various wholly owned subsidiaries, in the hotel sector in Ireland and in Wales.<sup>3</sup>
4. Within the State Dalata owns and operates three hotels, one in Limerick and two in Dublin. Also within the State, Dalata operates 32 hotels owned by other parties in a wide variety of locations.<sup>4</sup> Of these, 10 are operated on the basis of long term

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<sup>1</sup> Both of these documents are dated 14 October 2014. DHGL Limited is a wholly owned subsidiary of Dalata. See also footnote 6.

<sup>2</sup> Dalata's largest shareholders are Franklin Templeton Institutional, LLC 11.9%, Marketfield Asset Management 10.1%, FIL Limited 10.0%, Pioneer Asset Management S.A. 4.9%, and Blackrock Inc. 3.5%.

<sup>3</sup> Outside of the State, Dalata owns and operates the Maldron Hotel Derry. Dalata also operates, on behalf of third parties, the Maldron Hotel Belfast and the Best Western Plus Maldron Hotel Cardiff.

<sup>4</sup> It is not uncommon in the hotel sector for one individual or undertaking to own a hotel and to enter into a management contract or contracts with another individual or undertaking to manage the hotel operations, i.e., the supply of hotel services to consumers.



lease contracts (typically 25 years and sometimes longer) and 22 are operated on the basis of short term (typically a 12 months renewable) contracts.<sup>5</sup>

5. Dalata, through its wholly owned indirect subsidiary Ameline Commercial Limited, currently operates White's Hotel under a management agreement with Kieran Wallace of KPMG. This management contract would expire on completion of the proposed transaction and Dalata would acquire ownership of White's Hotel.
6. For the year ended 31 December 2013 Dalata's worldwide turnover was approximately €60.6 million, of which approximately €[...] million was generated in the State.<sup>6</sup>

#### *The Target – White's Hotel*

7. The assets to be acquired comprise White's Hotel, a four star hotel located in Wexford town, with 157 bedrooms which can accommodate up to 800 guests. Its facilities also include 10 meeting rooms, a ballroom, a swimming pool, spa and gymnasium.
8. For the year ended 31 December 2013 White's Hotel's worldwide turnover was approximately €[...] million, all of which was generated in the State.

#### **Rationale for the Proposed Acquisition**

9. As stated by Dalata

*"It is an integral part of Dalata's strategy to purchase hotel assets, securing the future of the hotel and transitioning the business to a more stable platform."<sup>7</sup>*

#### **Third Party Submissions**

10. No submission was received.

#### **Competitive Analysis**

##### *Product Market Definition*

11. The Commission defines markets to the extent necessary depending on the particular circumstances of a given case. In this instance, it is not necessary for the Commission to define precise relevant markets.

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<sup>5</sup> Management contracts between receivers and operating companies are typically short term contracts, i.e. 12 months or less.

<sup>6</sup> Dalata states that prior to 20 February 2014 the business of the Dalata Hotel Group was conducted through DHGL Limited (formerly Dalata Hotel Group) and its subsidiaries. Pursuant to a business reorganisation, on 20 February 2014, Dalata acquired the 100% shareholding previously held by DHGL Limited in each of its subsidiaries.

<sup>7</sup> Notification page 6.



12. The parties submit the following regarding relevant product markets:

*“The relevant product markets in this case may be as follows:*

- *the market for 3 star hotel accommodation; and*
- *the market for 4 star hotel accommodation.*

*Alternatively, the parties submit that the CCPC could leave open the market definition given that irrespective of how the market is defined there is no substantial lessening of competition.”<sup>8</sup>*

13. In addition, European Commission decisions have indicated the possible segmentation of the hotel sector. For example, in Case No. COMP/M.4816 *Blackstone / Hilton* the European Commission stated:

*“The [European] Commission has in previous decisions noted that the market for hotel accommodation could be segmented (i) by price/comfort level based on the grading or stars awarded to the particular hotel which indicates the standard and facilities the customer may expect and/or (ii) by ownership, distinguishing between chain hotels and independent hotels.”<sup>9</sup>*

14. While there are differences in the quality and range of services supplied by different hotels and also differences in relationships between hotel owners and hotel operators, it is not clear in this instance that these differences necessarily imply distinctly separate markets. For example, the market shares below do not differ markedly between 3 star, 4 star and 3 and 4 star combined markets.<sup>10</sup>

15. Accordingly, the precise product market definition can be left open in the present case. However for the purposes of reviewing the proposed transaction the Commission considers the narrowest relevant product markets to be the market for the supply of 3 star hotel accommodation and the market for the supply of 4 star hotel accommodation.

### *Geographic Market Definition*

16. The parties submit that, in line with previous Competition Authority decisions, the relevant geographic market is a local or regional market smaller than the

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<sup>8</sup> Notification page 15. The 3 star and 4 star categories identified by the parties correspond to the Failte Ireland Hotel Classification Scheme (“Hotel Scheme”) and ultimately the requirement that hotels operating in the State must be registered with Failte Ireland. The Hotel Scheme identifies types of facilities and services required to obtain different star ratings. See [http://www.failteireland.ie/FailteIreland/media/WebsiteStructure/Documents/2\\_Develop\\_Your\\_Business/4\\_Quality\\_Assurance/Hotel-Classification-Matrix.pdf](http://www.failteireland.ie/FailteIreland/media/WebsiteStructure/Documents/2_Develop_Your_Business/4_Quality_Assurance/Hotel-Classification-Matrix.pdf).

<sup>9</sup> See also for example, Case No. COMP/M.1596 *Accor/Blackstone/Colony Vivendi* and Case No. COMP/M.3858 – *Lehman Brothers / SCG / Starwood / Le Meridien*. In each of these cases while market segments were identified the precise market definition was left open.

<sup>10</sup> The Commission’s discussions with the parties and third parties have not highlighted significant distinctions between chain hotels and independent hotels. It is also the case that Dalata’s *Maldrón Hotel Wexford* and the *Best Western Danby Lodge Hotel* are the only hotels within a local geographic market, as defined in paragraph 16, which are part of readily identifiable hotel chains.



national market.<sup>11</sup> In this instance, the choice of geographic market, e.g., national or a local market such as Wexford town and surrounding areas, will not materially alter the competitive impact of the notified transaction in the State. Consequently, the issue of the appropriate geographic market can be left open. However, for the purposes of reviewing the notified transaction, the Commission considers the narrowest relevant geographic market to be Wexford town and the surrounding areas as identified by the parties, namely Wexford town and surrounding areas.<sup>12</sup>

#### *Horizontal Overlap*

17. Table 1 identifies market shares, based on available rooms, for the parties for each of a 3 star, 4 star and combined 3 and 4 star market in Wexford town and surrounding areas.

**Table 1: Wexford Hotel Rooms Market Shares**

<b>Wexford</b>	<b>3 Star</b>	<b>4 Star</b>	<b>3 &amp; 4 Star</b>
Dalata <sup>13</sup>	32%	0%	12%
White's Hotel	0%	27%	17%
Combined	32%	27%	29%

**Source: Failte Ireland Hotel Register 2014<sup>14</sup>**

#### *Competitive Effects*

18. The market shares indicate that the merged entity will be the largest supplier of hotel services in each of a 3 star market, a 4 star market and a 3 and 4 star combined market. The market shares do not, in themselves, imply a substantial lessening of competition as a result of the proposed transaction.

<sup>11</sup> For example, M/07/007 – Bernard McNamara/Conrad International/ECHPL and M/13/011 – OIF/Mount Kellett/UBIL/Jury's Inn.

<sup>12</sup> Notification page 15. The parties identify hotels in Wexford town and within a 20 minute driving time of Wexford town. The Commission considers that substantial competitive harms would not be suggested by any reasonable alternative geographic market definition.

<sup>13</sup> Dalata operates one 3 star hotel, the Maldron Hotel, Wexford.

<sup>14</sup> See

<[http://www.failteireland.ie/FailteIreland/media/WebsiteStructure/Documents/2\\_Develop\\_Your\\_Business/4\\_Quality\\_Assurance/2014-Hotels-Register.pdf](http://www.failteireland.ie/FailteIreland/media/WebsiteStructure/Documents/2_Develop_Your_Business/4_Quality_Assurance/2014-Hotels-Register.pdf)>.



19. The merged entity will still face competition from 3 star hotels such as Best Western Danby Lodge Hotel, Crosbie Cedars Hotel and Treacys Hotel and 4 star hotels such as Kelly's Resort, Ferrycarrig Hotel, and the Talbot Hotel.
20. The Commission's discussions with the parties and third parties have also highlighted the impact of increased availability of consumer information e.g., on-line pricing and rating information, as a competitive constraint on hotel operators. The availability of on-line information, and the extent to which it provides a competitive constraint, can be expected to remain unchanged by the implementation of the proposed transaction.
21. It is also the case that hotels are not the only providers of overnight accommodation. Other options include B&Bs, hostels, other non-hotel providers of accommodation, and latterly new offerings such as Airbnb.

#### *Vertical Issues*

22. The proposed transaction involves the vertical integration of the hotel ownership and hotel operations which could in other circumstances imply a risk of foreclosure either downstream for hotel owners seeking a hotel operator or upstream for hotel operators seeking a hotel owner. In this instance, however, the proposed transaction does not give rise to vertical competition concerns.

#### **Conclusion**

23. In light of the above, the Commission considers that the proposed acquisition will not substantially lessen competition in any market for goods or services in the State.



## Determination

The Competition and Consumer Protection Commission, in accordance with section 21(2)(a) of the Competition Act 2002, has determined that in its opinion the result of the proposed acquisition whereby Dalata Hotel Group p.l.c. would acquire certain assets, namely White's Hotel, from White's Hotel Limited will not be to substantially lessen competition in any market for goods or services in the State and, accordingly, the acquisition may be put into effect.

For the Competition and Consumer Protection Commission

Stephen Calkins  
Member  
Competition and Consumer Protection Commission