



# CONSOLIDATION PRIZE

The Coming Decade of  
Consolidation in B2C Services

# OPPORTUNITY KNOCKS

B2C Services is big business – around £80bn in the UK alone – but in contrast to retail, most B2C services markets are highly fragmented: the top players in aggregate often account for less than 20% of share, and independents thrive.

However, a number of recent developments – ranging from evolving consumer demand to technological improvements and regulatory changes – mean it's time to reconsider the case for consolidation over the coming decade.

Even taking into account these recent developments, OC&C's experience suggests only some B2C Services markets will consolidate profitably, and that others will remain fragmented. The determining factor is how the customer buys: are independents always going to be advantaged because the customer values the personal relationship, or can an innovative scale player deliver a differentiated proposition that the customer prefers?

OC&C has a well-structured approach to drive value out of B2C Services markets, whether you are an incumbent, an entrant from an adjacent market, or a potential investor.



# THE NEXT FRONTIER

B2C Services is diverse - from childcare to key cutting. As a sector, it is much harder to pin down than retail, but it does have some universal characteristics.

We define B2C Services as any market where labour is a core element of the “product” being bought. This includes markets where the consumer is making the purchase directly eg, dry cleaning, as well as those where there are “insurer” intermediaries eg, breakdown recovery. Many of the insights also apply to taxpayer-funded services markets too, especially where the consumer has some choice of provider eg, doctor’s surgeries (but not street cleaning).

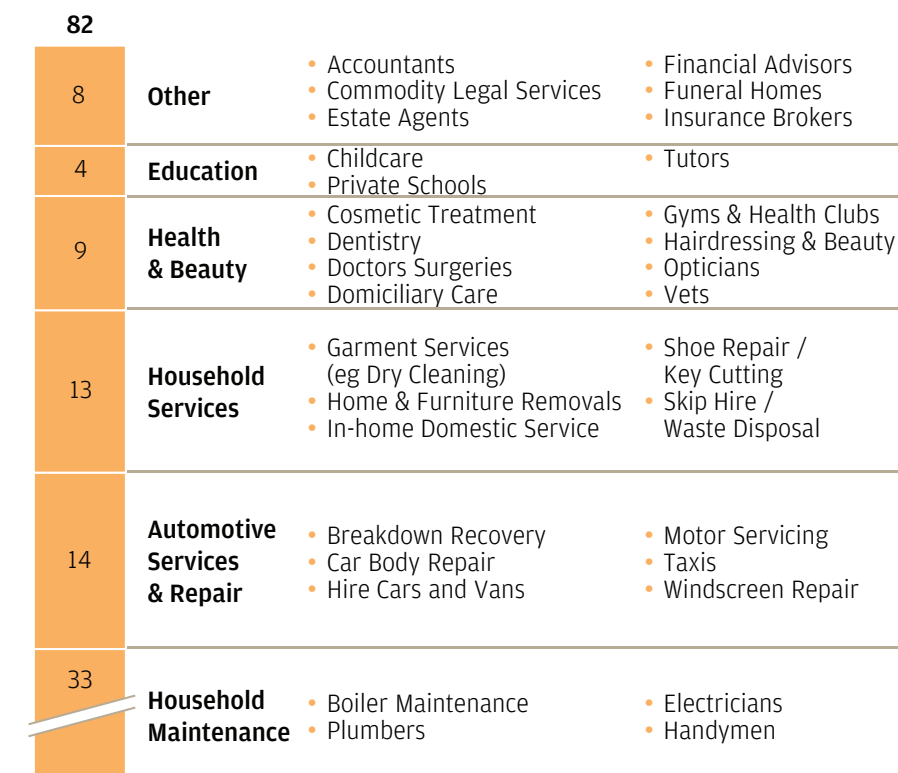
So why should you be interested?

- Large: in total, the UK consumer spent £82bn on B2C Services in 2009, and several sub-markets are multi-billion
- Growing: at 3.1% CAGR, significantly outpacing spending on goods (1.5% CAGR) and with some sectors growing at double-digits
- Most importantly the ‘right’ level of fragmentation: still significant share-driven growth opportunities, but many markets have a leader who could provide a platform for consolidation

What is more, activity in the market has been hotting up in the last six months. For example:

- Group of solicitors’ firms attempting to create the first ‘household name legal brand’, with a store on every high street
- Halfords acquisition of car body repair market leader
- Private equity acquisition of leading dentistry and funeral homes consolidators

Key Categories of B2C Service Spend<sup>1</sup>, 2009  
£bn



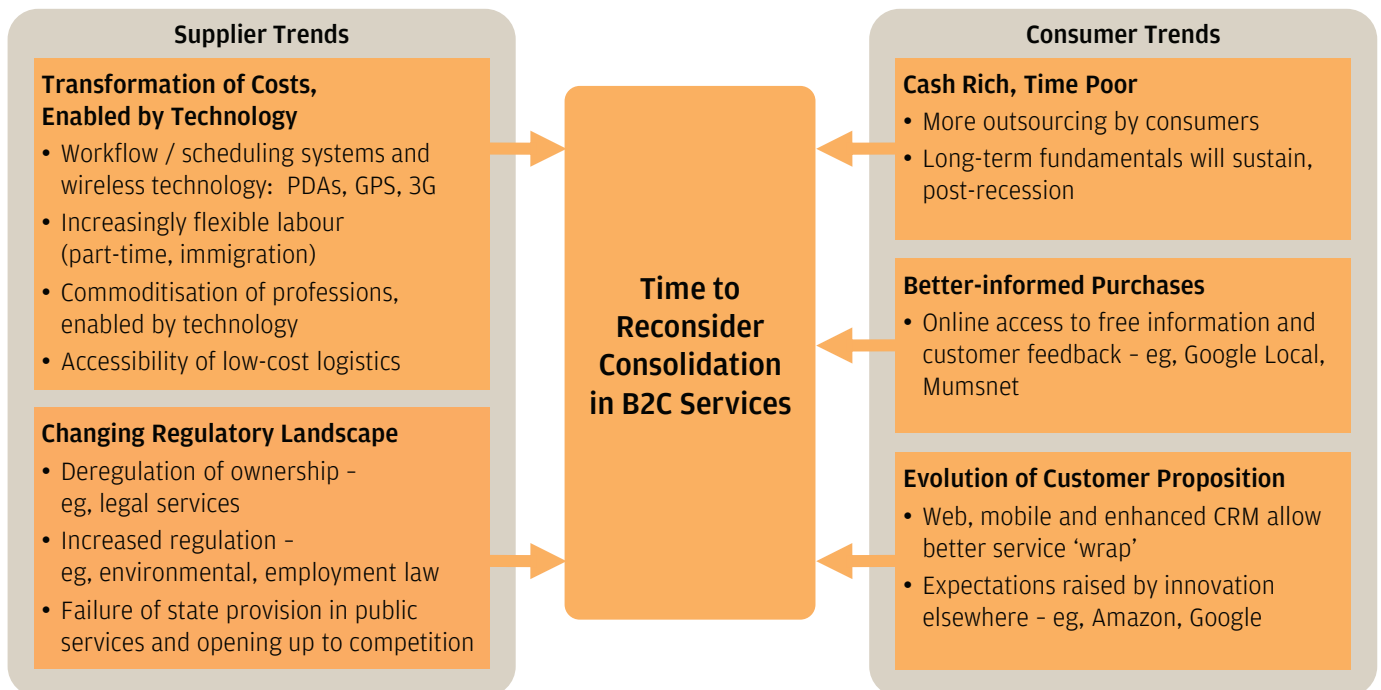
1. Excludes taxpayer-funded spend  
Source: Household Expenditure Survey

# THE TIME IS RIPE



OC&C's work across B2C Services sectors has revealed common trends driving their development. In aggregate, these trends are shaking up the structure of the markets, changing the economics and opening up opportunities for new entrants.

## Trends Creating Opportunity in B2C Services



As well as long-run trends (eg, cash-rich, time-poor; the various impacts of technology), the changing regulatory landscape in particular is introducing discontinuities into many B2C Services markets. In veterinary practices, then dentistry (in 2005) and from 2011

legal services, relaxation of ownership rules means qualified professionals are increasingly employees rather than owners. Conversely, in lower labour cost B2C Services markets, increasingly stringent employment legislation as well as Health & Safety

and environmental rules are raising barriers to the traditional family-run independent.

As a result, the time is ripe to reconsider the opportunities to expand into or invest in B2C Services.

# NOT JUST A COST GAME

People have been talking about consolidation in some of these sectors for years, and consolidators have often had their fingers burnt. So do the trends discussed on the previous page make enough of a difference? And how can you tell whether any given market is ripe for consolidation?

In the past, the case for consolidation has often been justified by cost-side economies of scale. The trends we have discussed will act to improve the cost advantage of scale players (eg, via labour optimisation), but **cost-side economies alone are rarely enough to justify a consolidation play.**

This is partly because consolidation enthusiasts are systematically prone to underestimate the cost-side diseconomies of scale: the need to fully cost

owner/family labour and the increase in unproductive overhead that is an inevitability of scale in all businesses. Dry cleaners and corner shops are standard examples of this phenomenon.

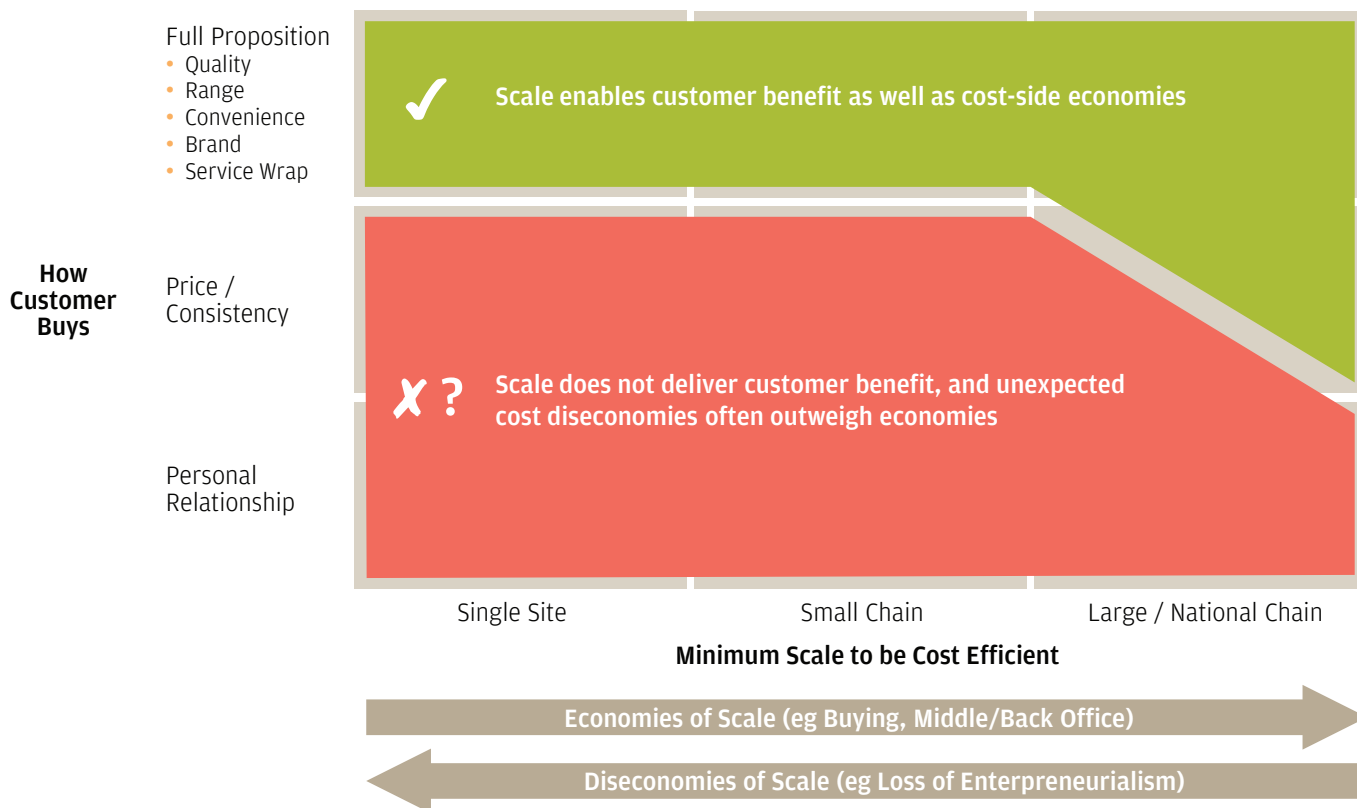
**There is a more important factor which influences consolidation potential: how customers buy.** In some B2C Services markets, customers still buy largely on the basis of personal relationship - think hairdressers or childcare - while in markets at the other extreme, customers evaluate the overall service proposition (eg, auto breakdown).

**Where customers are buying on overall service proposition, innovative scale players can create a better proposition that will beat independents, and thus drive consolidation.**

In many markets like this, leading players have innovated their proposition and are winning share fast: for example, Addison Lee's increasing encroachment into B2C taxis, enabled by its customer-friendly booking, notification and payment mechanisms, and of course the availability benefits conferred by its core B2B business.

In other B2C Services markets, customers would happily buy on the basis of an enhanced proposition, but no-one is yet offering it. A good example is dry cleaning, where the customer derives limited value from the personal relationship with the dry cleaner, and models like San Francisco's Laundry Locker should triumph. In fact, a start-up called Laundry Republic is trying to do just that in London.

## Consolidation Potential of B2C Services Markets

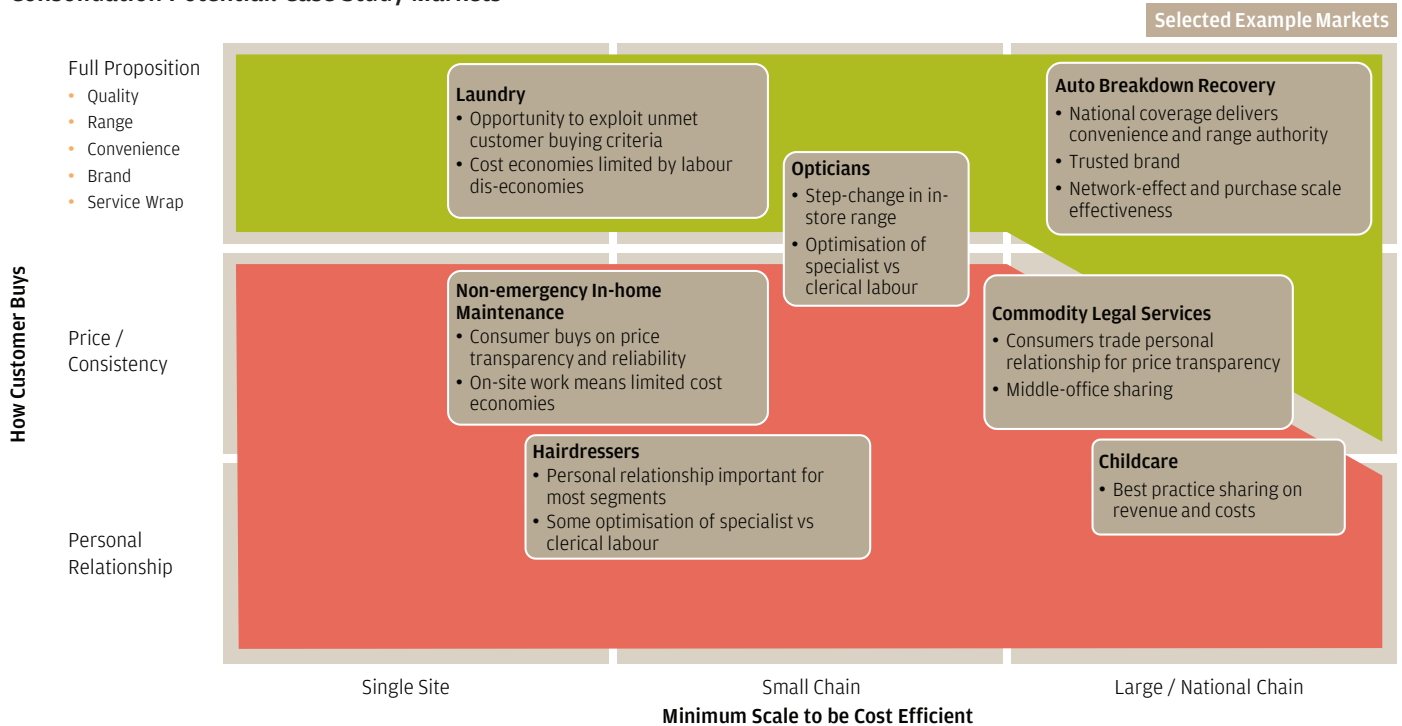


# REALITY CHECK

So, consolidation won't work everywhere - there are several markets where neither consumer buying behaviour nor cost economies support the existence of a scale player.

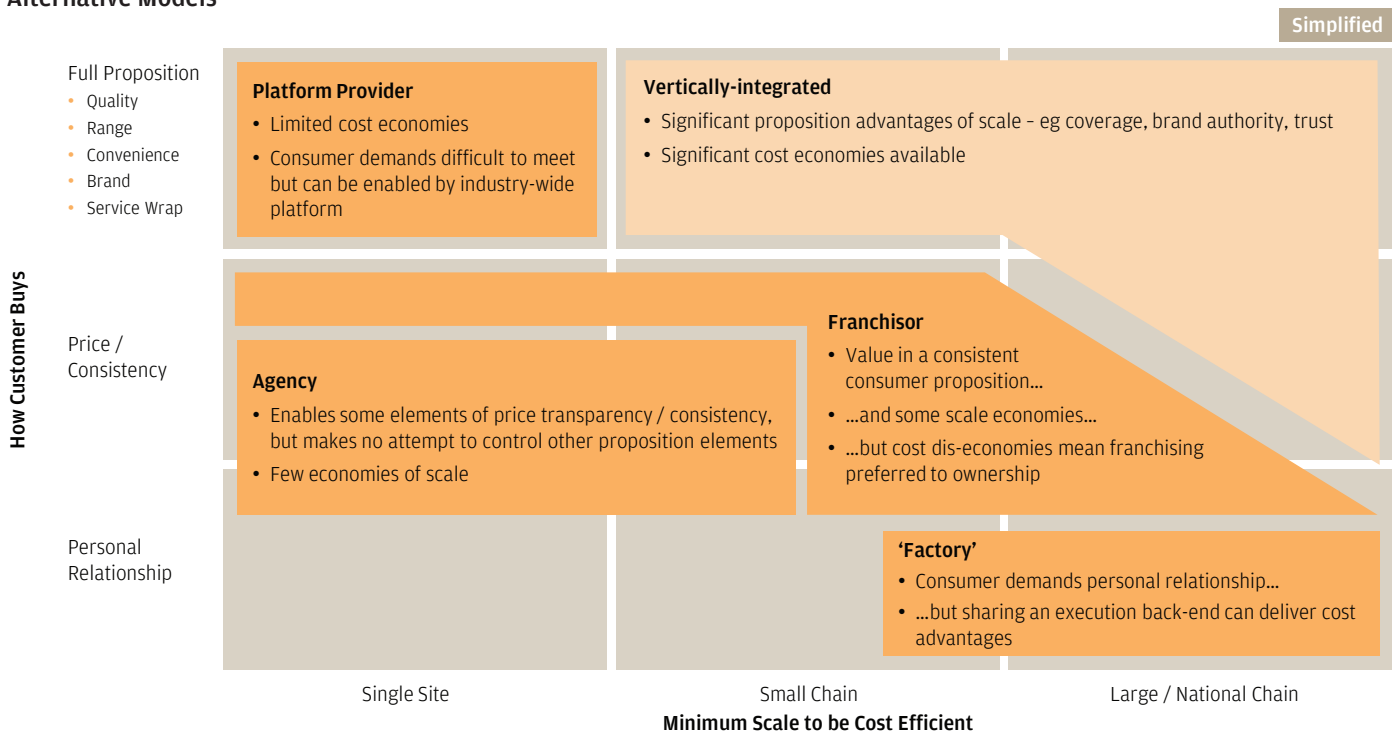
The most interesting markets are those where there is consolidation potential - where personal relationship is a less important purchase reason - but where a proposition with competitive advantage vs independents has not yet emerged.

## Consolidation Potential: Case Study Markets



Even when a consolidated, vertically integrated play does not work, there may be an opportunity to participate at scale using a different business model eg, as a franchisor. As before, the potential of these alternative business models can be inferred from consumer purchase reasons and from the degree of cost-side economies.

## Alternative Models



# MAKING IT HAPPEN

OC&C's analysis of the B2C Services universe highlights a number of opportunities over the coming decade, as well as some pitfalls to avoid. Whether you are an incumbent, are considering entry or are a potential investor, now is the right time to ask yourself some critical questions.

## QUESTIONS FOR...

### ...INCUMBENTS

1. How do your customers buy? Is personal relationship important, or can they be swayed by competitive advantage in other areas of the proposition?
2. Have you actively designed every element of your proposition to take advantage of scale?
3. Have you kept pace with recent Consumer trends, in particular with the service standards and use of technology that consumers have come to expect from the likes of Amazon and Google?
4. Are you fully exploiting the new cost economies of scale? Is there anything you can do to revolutionise your cost base?
5. Are there new entrants with disruptive business models (start-ups, supermarkets, etc.) who are about to transform the competitive landscape?

### ...ENTRANTS FROM ADJACENT MARKETS

1. How can your assets (eg, brands) and capabilities (eg, workforce management) enhance the customer proposition in the market(s) you are considering?
2. Will entry benefit your core business? If not, is the prize big enough to warrant the inevitable distraction?
3. How can you manage any conflicts with existing customers/suppliers?
4. What is the right model for entry to achieve your objectives?

### ...INVESTORS

1. Which markets have unexploited consolidation potential?
2. Will consolidation occur over a sensible investment horizon?
3. How 'do-able' is consolidation? Is there a target you can build on, with the right capabilities to consolidate aggressively?
4. Is the market safe from other entrants, in particular supermarkets?

## Best Opportunities in B2C Services

### Accelerate Existing Consolidation through Proposition Development

- Dentistry (eg, Oasis)
- Opticians (eg, Specsavers)
- Taxis (eg, Addison Lee)
- Motor Servicing (eg, Kwik Fit)
- Domestic Emergency (eg, Homeserve)

### Drive Consolidation through Proposition Development

- Car Body Repair
- Commodity Legal Services
- Garment Services (eg, Dry Cleaning)
- Home and Furniture Removals
- Skip Hire / Waste Disposal / House Clearance

### Consider Alternative Models

- Franchise
  - Childcare
- Agency
  - In-home Cleaning
  - In-home Maintenance
- 'Factory'
  - Commodity Legal Services

It's an exciting time to be involved in B2C Services, and an opportunity for significant value creation. If you are already a participant or are thinking about entering, get in touch on [B2CServices@ocstrategy.com](mailto:B2CServices@ocstrategy.com)

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