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**Section 57 of the Competition Act (Cap. 50B)**

**Grounds of Decision issued by the Commission**

**Notification for Decision: Proposed Acquisition of Singapore Food Industries Limited by Singapore Airport Terminal Services Limited**

**13 January 2009**

**Case number: CCS 100/1303/08**

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Confidential information in the original version of this Decision has been redacted from the published version on the public register. Redacted confidential information in the text of the published version of the Decision is denoted by [X].

**I. INTRODUCTION**

1. On 3 December 2008, the Competition Commission of Singapore ("CCS") received a notification for decision pertaining to a transaction involving the proposed acquisition by Singapore Airport Terminal Services Limited ("SATS") of all the issued ordinary shares in Singapore Food Industries ("SFI") ("the Transaction"). The notification is submitted by SATS.<sup>1</sup>

2. CCS has concluded that the Transaction, if carried into effect, will not infringe section 54 of the Competition Act (Cap. 50B) ("the Act").

**II. THE PARTIES**

**(a) SATS**

3. The core operations of the SATS group of companies ("SATS Group") are airport

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<sup>1</sup> While the notification was submitted by SATS, SFI had also through its solicitors submitted the relevant information referred to in Form M1 necessary for CCS to make its assessment.

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ground services and inflight solutions. Its network of operations spans more than 40 airports in nine countries, including Singapore Changi Airport. SATS was incorporated in Singapore on 15 December 1972 and is listed on the Main Board of the Singapore Exchange Securities Trading Limited.

4. The SATS Group worldwide turnover (including Singapore turnover) is S\$958 million for the financial year ended 31 March 2008. Worldwide, the SATS Group activities include ground handling, inflight and other food catering, as well as manufacturing and distribution of frozen and chilled processed foods. In Singapore, the activities also include aviation security, airline laundry services, cargo delivery and leasing of office space to airline clients and cargo agents.

5. SATS submits that it is active in the Singapore food business (other than inflight catering) primarily through its subsidiary, Country Foods Pte Ltd. ("Country Foods"). SATS submits that Country Foods accounts for approximately [0- 10%]% of the SATS Group worldwide turnover. Country Foods' areas of activity in Singapore are as follows:

- i) Contract food services  
Country Foods' activities here entail hospital catering and management services (on-site cooking and final touch-up of meals including therapeutic and special diet meals); and
- ii) Processed foods  
Country Foods' activities here entail:
  - Supply of pre-prepared cut vegetables and fruits in a temperature-controlled cold chain mainly to food services outlets in Singapore and to SATS;
  - Supply of value-added meat, vegetarian and seafood processing, contract manufacturing of frozen soups and sauces mainly to food services outlets in Singapore and to SATS;
  - Supply of ready meals and sandwiches using pre-cut vegetables and processed meat to convenience stores and cafes in Singapore; and
  - Supply (export sales) of hot snacks to airlines.

**(b) SFI**

6. SFI is a public company limited by shares incorporated in Singapore on 16 April 1973 and is listed on the Main Board of the Singapore Exchange Securities Trading Limited.

7. According to SATS, the SFI group of companies ("SFI Group") is an integrated food services operation in Singapore with a wide portfolio of food-related businesses, including food materials supplies, distribution, catering, manufacturing and processing.

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They also have significant operations in the United Kingdom.

8. SATS submits that the worldwide turnover (including Singapore turnover) of the SFI Group is S\$714.9 million, while the Singapore turnover is S\$246.5 million, for the financial year ended 31 December 2007. Worldwide, the SFI Group activities include wholesale food distribution, food manufacturing (including frozen convenience food, convenience food, convenience meals and chilled convenience meals) and food processing (including seafood processing). In Singapore, their activities also include food preparation and abattoir and hog auction.

### **III. THE TRANSACTION**

9. The Transaction consists of two phases. In the first phase, SATS will acquire 359,731,154 ordinary shares in the capital of SFI (representing approximately 69.68 per cent of all the issued shares) from Ambrosia Investment Pte. Ltd., a wholly-owned subsidiary of Temasek Holdings (Private) Limited, pursuant to a conditional sale and purchase agreement dated 2 December 2008 between SATS and Ambrosia Investment Pte. Ltd. In the second phase, in accordance with Rule 14 of the Singapore Code on Take-overs and Mergers (the "Code"), SATS will make a mandatory cash offer ("the Offer") for all the SFI Shares, other than those already owned, controlled or agreed to be acquired by SATS.

10. In essence, the Offer is subject to the condition that CCS does not (i) refer the proposed acquisition of SFI by SATS or any matter arising from or relating to that proposed acquisition, to a Phase 2 Review, or (ii) issue a direction or decision, that will, in effect, prohibit SATS from acquiring voting rights in SFI. The Offer will lapse if either of these events should materialise.

11. SATS submits that the Transaction is meant to realise synergies in the areas of procurement, supply chain logistics, product development, as well as production and sales, given that many existing food businesses of the SATS and SFI Groups are complementary in nature. Further, SATS submits that it presently has no intention to introduce any major changes to the business of SFI.

12. SATS submits that the notified transaction constitutes a merger falling under section 54(2)(b) of the Act. On the basis of SATS' submission, CCS proceeded to assess the competitive effects of the Transaction.

### **IV. POTENTIAL COMPETITION ISSUES**

13. SATS submits that there are two main areas where the respective businesses of the parties overlap. These are:

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- i) the market for the provision of contract food services<sup>2</sup>; and
- ii) the market for the supply of processed foods.

14. CCS has considered whether the Transaction will lead to coordinated and non-coordinated effects that would substantially lessen competition in these markets.

15. Further, as SFI is involved in the wholesale food distribution business, which lies upstream to the provision of contract food services and the supply of processed foods, CCS also considered whether the Transaction is likely to raise vertical competition concerns. In particular, CCS examined whether the Transaction is likely to foreclose competitors from either the upstream market for the wholesale distribution of food products, or the downstream markets for contract food services and processed foods.

**V. RELEVANT MARKETS**

**(a) Product market**

*(i) SATS' submissions*

16. SATS submits that the relevant product markets for the purposes of this notification are:

- i) the provision of contract food services;
- ii) the supply of processed foods; and
- iii) the wholesale distribution of food products.

SATS' submissions in respect of each market are set out in paragraphs 17 to 26.

Contract food services

17. SATS submits that the businesses of the SATS and SFI Groups overlap in the provision of contract food service<sup>3</sup>, consisting of on-site or off-site provision of freshly prepared meals, either on a daily or ad hoc basis to large numbers of people.

18. Contract food services are provided to various sectors such as business and industry (e.g. staff canteens in both public and private sectors), healthcare (e.g. hospitals and nursing homes) and education (e.g. schools and universities).

19. On the demand-side, customers generally outsource the catering requirements through a tender process, with customers' selection of suppliers generally being based on

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<sup>2</sup> The overlap in the contract food services market for SATS and SFI is only in the non-aviation industry in Singapore.

<sup>3</sup> Essentially, this refers to food catering services.

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cost considerations.

20. SATS also submits that there are no significant supply-side differences in providing contract food services to different sectors, as the basic know-how for food preparation and the logistics involved would not differ significantly between sectors. In addition, with the basic know-how in food preparation, suppliers could easily customise recipes to suit the needs of different sectors.

### Processed foods

21. SATS submits that the businesses of the SATS and SFI Groups overlap in the supply of processed foods, specifically in the following categories of processed foods:

- i) frozen processed foods;
- ii) chilled processed foods; and
- iii) ready-to-eat/convenient meals<sup>4</sup>.

22. SATS submits that food products in these categories belong to the same product market as they are close substitutes and share similar product characteristics, such as minimal preparation, long storage life and protection of food quality. These food products also share a similar intended use, i.e. to provide fast and convenient meals.

23. End consumers would generally perceive the food products as being sufficiently substitutable as buyers' profiles for such food products are similar. While prices of the food products may be different due to different costs of production, SATS submits that if there is a small but significant and non-transitory increase in prices (i.e. 10%), it is likely that end consumers would, and do in practice, switch between the food products.

24. From a supply-side perspective, the basic know-how for food processing/manufacturing would not differ significantly between these food products and similar expertise could be applied between the food products. Suppliers of one type of food product could easily switch to supplying another type of food product within a short period of time in response to price increases. Accordingly, this acts as a competitive constraint on the ability of any manufacturer to increase prices significantly above competitive levels. In practice, manufacturers of one type of food product are also often involved in manufacturing other types of food products.

### Wholesale distribution of food products

25. SATS submits that the SFI Group is involved in the wholesale distribution of food

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<sup>4</sup> Examples of ready-to-eat/convenient meals would be chilled sandwiches, frozen dumplings/buns, chilled or frozen packed food, etc. Essentially, this type of food products can be consumed with minimal preparation (for example, one only needs to heat up the food in a microwave oven). One can usually find this type of food in convenience stores (e.g. 7-eleven) or supermarkets.

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products. Specifically, SATS says that the former is involved in the sourcing, import and distribution of fresh fruits and vegetables, chilled and frozen meats and seafood, and other food products.

26. SATS submits that it may not be realistic for the relevant product market to be segmented by categories of food products or by the temperature requirements for storing or delivering specific food products. From a supply-side perspective, SATS argues that the requisite expertise, storage facilities, transportation and distribution networks required for the sourcing, import and distribution of the different categories of food products would not be significantly different. In the event of a small but significant and non-transitory increase in prices (i.e.10%), suppliers would generally be able to switch between the supply and distribution of the different categories of food products through modifications to their existing operations, storage facilities and/or delivery vehicles. Such modifications would not involve significant sunk costs and can be achieved within a short period of time. Food distributors are, in general, involved in supplying a range of food products.

*(ii) CCS' assessment*

Contract food services

27. Based on a market report furnished by SATS<sup>5</sup> and feedback from respondents to CCS' inquiries, CCS notes that the provision of contract food services can broadly be categorised into the following four areas:

- i) Business and industrial sector (e.g. factories, hotels),
- ii) Education sector (e.g. schools, colleges),
- iii) Healthcare sector (e.g. hospitals, nursing homes), and
- iv) Uniformed sector (e.g. Singapore Armed Forces, Policy Academy, Civil Defence Force, etc).

28. CCS notes that the licensing requirements (by the Agri-Food & Veterinary Authority of Singapore ("AVA") and/or the National Environment Agency of Singapore ("NEA")) for the provision of contract food services are not sector-specific.

29. Feedback from respondents indicates that provision of contract food services to these various sectors (with the exception of the healthcare sector) can be viewed as close substitutes. On the supply-side, the provision of contract food services to these sectors (with the exception of the healthcare sector) does not require substantial capital investment.<sup>6</sup> Respondents confirmed that it is also common for providers of contract food services to target serving more than one sector at the same time. On the demand

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<sup>5</sup>[~~S~~], PriceWaterhouseCoopers (PwC), 2002.

<sup>6</sup> The investment required is not massive as providers of contract food services typically made use of the existing kitchen facilities of their customers.

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side, customers also generally find (with the exception of the healthcare sector) considerable substitutability between the providers of contract food services across sectors.

30. Respondents gave feedback that the provision of contract food services to the healthcare sector is the most complicated aspect. Customers often have specific requirements. From the supply-side perspective, a provider would need to have technical expertise (such as dieticians and nutritionists to devise menus that cater to patients' needs) and management experience in running contract food services in hospitals. This restricts the number of providers. Companies that want to provide contract food services to the healthcare sector must be prepared to invest in more resources (e.g. in hiring specialists to come out with menus that meet patients' specific needs). On the demand-side, customers from the healthcare sector (e.g. hospitals and nursing homes) usually exhibit a strong preference for providers who have a good track record and the necessary technical expertise of providing contract food services to local healthcare institutions. Generally, these customers are risk-averse and not prepared to try out a brand-new player. According to one of the respondents, this could explain why even big players like "Compass Group" (a UK company) and "Sodexo" (a French company) have thus far failed to make inroads into providing contract food services to the local healthcare sector.

31. Based on the information available, CCS considers that there are separate product markets for contract food services for the non-healthcare sectors and for the healthcare sector.

### Processed foods

32. In relation to supply of processed foods, CCS has assessed whether it is necessary to narrow the product market according to the food categories, namely:

- i) frozen processed foods;
- ii) chilled processed foods; and
- iii) ready-to-eat/convenient meals.

33. Respondents' feedback generally confirms SATS' submissions that there is no need to segment the product market by food categories. On the supply side, although some technical know-how and specialised equipment for the manufacturing of processed foods (especially frozen and chilled processed foods) are important, they are not the ultimate factors in determining if a player will stay viable in this market. The ability of a player to innovate is deemed to be more important. In addition, the market is also able to accommodate players of varying sizes of operations. Hence, there are many competitors in this market. There are also many players who are engaged in manufacturing (or are able to manufacture) various categories of processed foods. On the demand side, customers typically buy processed foods because these food products provide fast and

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ready meals (i.e. minimal food preparation needed). There was also feedback from purchasers of processed foods that the three categories of purchased foods mentioned above are generally substitutable. On this basis, and given that nothing to the contrary was found in the feedback given by respondents, CCS did not consider segmenting the product market for processed foods further for the purpose of this decision.

### Wholesale distribution of food products

34. As the wholesale distribution of food products may require their storage or delivery under specified temperature conditions, CCS considered whether there is a need to further segment this product market by the following categories of food products:

- i) Fresh fruits and vegetables;
- ii) Chilled and frozen meats and seafood;
- iii) Other food products (e.g. rice).

35. Feedback from respondents indicate that on the supply-side, although the storage facilities, transportation and distribution networks required for sourcing and distribution would vary according to the different categories of food products, suppliers/wholesalers are generally able to switch from the supply and distribution of different categories of food products through some modifications to their operations and facilities.<sup>7</sup> There are also food distributors who import and distribute several categories of food products in Singapore (e.g. Ben Food(s) Pte Ltd and Angliss Singapore Pte Ltd are significant players involved in the wholesale distribution of a wide range of food products in Singapore including frozen meats, fruits and vegetables, dairy products, canned food, dry food stuff, beverages and wine). On this basis, CCS did not consider it necessary to segment this product market further for the purpose of this decision.<sup>8</sup>

### **(b) Geographic market**

#### *(i) Contract food services*

### SATS' Submission

36. In terms of the geographic scope of the market, SATS submits that the supply of contract food services may be a Singapore market. Customers require freshly prepared

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<sup>7</sup> For example, if a player invests in modifying its warehouse so that it has multi-temperature warehousing capabilities (e.g. like the warehouse facilities owned by Ben Food(s) Pte Ltd), then that player would be able to carry and distribute a wider range of products since a multi-temperature warehouse would be able to store dry, chilled and frozen food products.

<sup>8</sup> Also, CCS understands that although SFI is relatively a stronger player in the segment of frozen meats and seafood for wholesale distribution of food products, it only has an estimated market share of [10– 20]% (by volume) for wholesale distribution of frozen meats and seafood in Singapore and hence, is not considered a dominant player even going by a stricter market definition.



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meals on a daily or ad hoc basis, which SATS says would be difficult, though not impossible, for suppliers to provide from outside of Singapore. However, SATS is of the view that it is conceivable that suppliers in neighbouring countries such as Malaysia could supply contract food services into Singapore. On the demand-side, customers may also source for contract food services from neighbouring countries such as Malaysia in response to a small but significant non-transitory increase in prices (i.e. 10%).

### CCS' Assessment

37. SATS has submitted that it may be possible that suppliers from neighbouring countries such as Malaysia (specifically Johor Bahru) could also supply contract food services into Singapore. In this respect, CCS has received feedback that while it is not uncommon to find service providers from Johor Bahru competing with local players, the logistics of cross-border services put the foreign players at a distinct disadvantage and most customers would still buy from providers of contract food services based in Singapore. This is because the nature of contract of food services is such that the food needs to be freshly prepared and served and hence, food preparation generally is done on-site or not too far from where the customers are located.<sup>9</sup> On this basis, CCS considers the geographic market for the provision of contract food services (for healthcare and non-healthcare sectors) to be the Singapore (i.e. local) market.

### *(ii) Processed foods*

### SATS' Submission

38. SATS submits that the geographic scope of the market for the supply of processed foods is at least regional, if not global. This is because processed foods, with their characteristics, such as long storage life, protection of food quality and portability, allow them to be transported over long distances. To illustrate, SATS points to how SFI manufactures and distributes its frozen processed food products from Shanghai, China to Singapore.

### CCS' Assessment

39. Respondents have indicated that there are many competitors within and outside of Singapore who supply processed foods. Competition from suppliers far outside of Singapore is possible, given the long storage life and portability. CCS therefore considers the geographic market for processed foods to be worldwide.

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<sup>9</sup> Distance (and hence, time) is a critical factor to consider for contract food services. Given that the food needs to be freshly prepared and served, it is not possible for the suppliers to transport the food over long distances. Hence, respondents have indicated that only suppliers from Johor Bahru at most could pose as viable overseas competitors. What these suppliers do is that they prepare the food in Johor Bahru, have the food packed and sealed and then have them transported over to Singapore. These suppliers mostly cater to factory workers in Singapore.

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*(iii) Wholesale distribution of food products*

SATS' Submission

40. SATS submits that the geographic scope of the market for the wholesale distribution of food products may be regional as the majority of wholesale food products distributed in Singapore is imported from the region. SATS submits that suppliers from the region, in particular Malaysia, are able to pose competitive constraints on wholesale food distributors such as the SFI Group in Singapore, by exporting wholesale foodstuffs to Singapore and extending their export and distribution networks to supply within Singapore, or setting up separate distribution networks in Singapore. SATS submits that setting up a distribution network for wholesale food products in Singapore would not require substantial investments given the geographic size of Singapore. Alternatively, suppliers from the region may leverage on distribution networks of other wholesale distributors in Singapore. SATS also submits that licenses from the AVA for food imports are not difficult to obtain.

CCS' Assessment

41. Respondents have indicated that although players within the market for wholesale distribution of food products in Singapore come from both within Singapore and abroad, players involved in the wholesale distribution of food products would need to establish local distribution networks/channels in Singapore. Hence, overseas suppliers can choose either to set up a distribution company in Singapore or to go through local wholesale distributors who already have their distribution networks established in Singapore. On this basis, CCS considers the geographic market for the wholesale distribution of food products to be the Singapore (i.e. local) market.<sup>10</sup>

**VI. MARKET STRUCTURE**

**(a) Market shares and market concentration**

42. Table 1 below gives the estimated Singapore market shares for contract food services in the non-healthcare sectors. After the Transaction, the estimated market share of the combined entity will be [30–40]%, while the estimated CR3 ratio will be [60–70]%. These figures thus fall below the indicative thresholds stated in the CCS Guidelines on Substantive Assessment of Mergers.<sup>11</sup> Further, the increase in the CR3 ratio after the

<sup>10</sup> In this regard, the assessment is similar to that for the geographic market for contract food services where we can have foreign players in Singapore (e.g. "Sodexo", "ISS" and "Compass Group") providing contract food services, but they would need to set up establishments in Singapore for food preparation here (given that the nature of contract food services is that the food needs to be freshly prepared and served).

<sup>11</sup> The CCS is generally of the view that competition concerns are unlikely to arise in a merger situation unless: (1) the merged entity will have a market share of 40% or more; or (2) (in cases where the merged entity will have a

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Transaction is only [0-10] %.

**Table 1: Estimated Singapore market shares for contract food services (non-healthcare sectors)**

2007		
Estimated total market size in Singapore: S\$[X]		
Competitors	Estimated sales value (S\$million)	Estimated market share (%)
SATS Group	[X]	[0 – 10]
SFI Group	[X]	[30 – 40]
Sodexho	[X]	[10 – 20]
ISS	[X]	[10 – 20]
Compass	[X]	[0 – 10]
SATS + SFI	[X]	[30-40]
Pre-Merger (CR3)	-	[60 – 70]
Post-Merger (CR3)	-	[60 – 70]
% pt change (CR3)	-	[0-10]

Source: Figures derived from best estimates provided by third parties and from SATS' submissions

43. Table 2 sets out the estimated Singapore market shares for contract food services in the healthcare sector. From respondents' feedback, CCS understands that the meal solutions for hospitals/nursing homes can either be provided in-house by the hospitals/nursing homes themselves, or they can be outsourced to food caterers. Hospitals/nursing homes, which are capable of providing meal solutions in-house, will act as a competitive constraint on the food caterers.

44. According to feedback received by CCS, in-house meal solutions provided by the hospitals/nursing homes currently account for about [X] of the total sale values of food services for the healthcare sector, while the remaining [X] have been outsourced to Country Foods (under SATS), the SFI Group and ISS (a Dutch company). After the Transaction, there will effectively be only 2 players left to compete for the outsourced food services in the healthcare sector (i.e. ISS and the merged entity), and the estimated market share of the combined entity will be [10 – 20] % which is well below the indicative thresholds stated in the CCS Guidelines on Substantive Assessment of Mergers.

**Table 2: Estimated Singapore market shares for contract food services (healthcare sector)**

2007		
Estimated total market size in Singapore: S\$[X]		
Competitors	Estimated Sales value (S\$million)	Estimated Market Share (%)
Country Foods (belonging to SATS Group)	[X]	[0 – 10]
SFI Group	[X]	[0 – 10]
ISS	[X]	[10 – 20]
In-house meal solutions by hospitals/nursing homes	[X]	[70 – 80]
SATS + SFI	[X]	[10 – 20]

Source: Figures derived from best estimates provided by third parties and from SATS' submissions

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market share of between 20% to 40% and the post-merger CR3 is 70% or more.

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45. Tables 3 & 4 set out the estimated Singapore market shares for processed foods and for the wholesale distribution of food products respectively. As indicated in both tables, the estimated market shares of the merged entity fall well below the indicative thresholds. However, as there were no independent sources for verification of SATS' estimates and respondents were unable to give CCS consistent market share estimates, CCS examined these markets based on other considerations as well (see paragraphs 46 to 54 below).

**Table 3: Estimated Singapore market shares for processed foods<sup>12</sup>**

2007		
Estimated total market size in Singapore: \$[REDACTED]million		
Competitors	Estimated Sales value (\$million)	Estimated Market Share (%)
SATS Group	[REDACTED]	[0-10]
SFI Group	[REDACTED]	[0-10]
Xiamen Jiahua	[REDACTED]	[10-20]
Clouet Trading	[REDACTED]	[0-10]
Yeo Hiap Seng	[REDACTED]	[0-10]
SATS + SFI		[0-10]

Source: Figures derived from SATS' submissions

**Table 4: Estimated Singapore market shares for wholesale distribution of food products**

2007		
Estimated total market size in Singapore: \$[REDACTED]billion		
Competitors	Estimated Sales value (\$million)	Estimated Market Share (%)
SATS Group	N.A.	N.A.
SFI Group	[REDACTED]	[0-10]
Harpers Trading (Singapore) Pte Ltd	[REDACTED]	[0-10]
Angliss Singapore Pte Ltd	[REDACTED]	[0-10]
Intraco Foods Pte Ltd	[REDACTED]	[0-10]
SATS + SFI		[0-10]

Source: Figures derived from SATS' submissions

**(b) Barriers to entry and expansion**

46. According to feedback received by CCS, the barriers to entry for contract food services (non-healthcare sectors), processed foods and wholesale distribution of food products do not appear to be high. Feedback given to CCS generally indicates that there is competition in all three markets and customers will have sufficient choice after the Transaction.

47. As regards the markets for contract food services (non-healthcare sectors) and processed foods, feedback from respondents indicates that size is not a barrier to entry. For contract food services, CCS received feedback that smaller players have managed to

<sup>12</sup> CCS was unable to obtain the estimated market shares for processed foods on a global basis. Hence, CCS has used the estimated Singapore market shares instead, although CCS has assessed that the geographical market for processed foods to be worldwide. In doing so, CCS notes that the estimated market shares of the competitors listed in Table 3 would be significantly lower on a worldwide basis.

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maintain their edge through competitive pricing. Further, the licensing requirements are not particularly onerous.

48. For processed foods, CCS received feedback that the market has seen regular entry and exit of players of varying sizes. CCS received feedback that product innovation and differentiation (as opposed to size of the company) is considered very important in the market for supply of processed foods.

49. Based on respondents' feedback, CCS noted that the market for the provision of contract food services (healthcare sector) appears to be the only exception where the barriers to entry are relatively high, in view that buyers have a strong preference for providers who possess relevant domain expertise and track record and also, buyers (at least the big ones) are capable of providing in-house meal solutions themselves. Respondents have indicated that large players like 'Sodexo' (a French company) and 'Compass Group' (a UK company), who have successfully entered the Singapore contract food services market, have yet to successfully penetrate the healthcare sector insofar as the provision of contract food services is concerned. This is despite the fact that these are big players with relevant expertise and who hold track records of providing contract food services to healthcare institutions abroad.

### **(c) Product differentiation**

50. Respondents noted that competition in all the markets in respect of contract food services (both healthcare and non-healthcare sectors), processed foods and wholesale distribution of food products generally takes place on both price as well as non-price factors, such as quality, safety and product range/diversity. In particular, respondents have stressed that product innovation is particularly important in the market for processed foods.

51. Respondents have also indicated that besides price and quality, other factors such as service levels, domain expertise, proven track record and reliability are critical in determining the competitive edge of a provider/supplier in the market for the provision of contract food services (healthcare sector).

### **(d) Countervailing buyer power**

52. Respondents noted that contracts for contract food services (both healthcare and non-healthcare sectors) have a typical duration of 1-3 years, while the duration of contracts for supply of processed foods and for wholesale distribution of food products can range from 3 months to a year. Switching costs are relatively low because customers are not locked into longer term contracts. Furthermore, it is easy for customers to switch providers in all three markets, albeit that some degree of customer loyalty exists. With the exception of contract food services in the healthcare sector, switching of

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providers/suppliers can easily take place in all these markets, and have taken place in the past.

53. Respondents also indicated that buyers in general have some degree of bargaining power in the above markets. With the exception of the market for the provision of contract food services (healthcare sector), there are many competitors in the above markets. Buyers thus have competing choices to choose from. In addition, many buyers (e.g. factories, cafes/restaurants, supermarkets, hotels, the larger hospitals/nursing homes, etc) are relatively big establishments and hence, are in a good position to negotiate prices with their suppliers/providers.

54. In respect of the market for the provision of contract food services (healthcare sector), respondents indicated that the larger hospitals/nursing homes are generally big establishments with sufficient buyer power to negotiate prices (or other terms and conditions) with suppliers even though there are few competitors in this market due the higher barriers to entry. In addition, based on Table 3, an estimated  $\%$  of the catering food services (in terms of revenue) for the healthcare sector has been provided in-house by the healthcare institutions. This shows that provision of meal solutions in-house is a viable option for healthcare institutions. This ability acts as an effective constraint on any potential exercise of market power by the few existing suppliers.

## VII. COMPETITION ASSESSMENT

### (a) Non-coordinated effects

55. CCS has considered that non-coordinated effects are unlikely to arise in the markets for:

- provision of contract food services (non-healthcare sectors); and
- supply of processed foods;

as a result of the Transaction, by virtue of the factors which have already been highlighted above, i.e. :

- i) The merged entity would have low market shares in all these markets that would not exceed the CCS' indicative thresholds;
- ii) These markets are in general highly fragmented with many existing competitors, both local as well as foreign;
- iii) The barriers to entry are relatively low in all these markets, which have been marked by entry and exit of market players. Furthermore, the markets for provision of contract food services (non-healthcare sectors) and supply of processed foods can accommodate players of varying sizes; and

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- iv) The existence of buyer power in these markets, given that many of the buyers in these markets are relatively big establishments.

56. In respect of the market for the provision of contract food services (healthcare sector), the barriers to entry for this market are relatively high and there are very few existing competitors. Nevertheless, CCS is of the view that non-coordinated effects are unlikely to arise in this market because:

- i) The healthcare institutions have the capability or potential capability of providing meal solutions in-house, and this acts as a competitive constraint on any exercise of market power by incumbent third-party providers;
- ii) Buyer power also exists, at least in respect of the larger and limited number of healthcare institutions; and
- iii) Notwithstanding the high barriers to entry, there still exists the threat of new entrants, given that the licensing requirements are not particularly onerous and not sector-specific. Foreign players like “Sodexo” and “Compass” have expressed interest in entering this market and can thus potentially rival existing providers, should buyers/customers be willing to try out new players.

**(b) Coordinated effects**

57. Based on the feedback given, CCS notes that markets in respect of:

- provision of contract food services (non-healthcare sectors); and
- supply of processed foods;

are highly fragmented with many existing competitors who compete on price, quality, product range/diversity, product innovation and service standards. Product innovation, in particular, is a very important factor for competing suppliers to stay viable in the market for the supply of processed foods. As such, CCS considers it unlikely that coordinated effects will arise in all these markets.

58. In respect of the market for the provision of contract food services (healthcare sector), CCS notes that coordinated effect may arise in this market as there would only be two competing suppliers left (i.e. ISS and the merged entity) after the Transaction, compared to the current three (i.e. ISS, SFI Group and SATS/Country Foods). However, any coordinated effects will be mitigated by the following factors:

- i) menus for healthcare institutions are highly customised given that the suppliers/providers need to devise therapeutic and special diet meals at the directions and specifications of their customers;
- ii) food catering services are generally heterogeneous, given that quality,

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product range, service level and reliability matter significantly to the customers; and

- iii) The ability of hospitals to cater their meals in-house, as well the bargaining power of the larger hospitals, will also militate against any possible coordination.

**(c) Vertical concerns**

59. CCS notes that the estimated market share of the SFI Group in the market for wholesale distribution of food products in Singapore is only [0-10]%, while the combined market share of the SFI and SATS Groups for the markets for contract food services (both healthcare and non-healthcare sectors) and processed foods are only [20-30]% and [0-10]% respectively. Given that neither the SFI or SATS Groups appear to have market power in any of these markets, it is unlikely that the merged entity will be able to substantially foreclose competition in either the upstream market for the wholesale distribution of food products, or the downstream markets for contract food services (for both healthcare and non-healthcare sectors) and processed foods.

60. In addition, based on respondents' feedback, CCS understands there also exist several alternatives for competitors of SATS to turn to in the upstream market (e.g. importing food products directly from abroad, etc.).<sup>13</sup>

**VIII. CONCLUSION**

61. For the reasons stated above and based on the information available, CCS assesses that the Transaction, if carried into effect, will not infringe the section 54 prohibition.

62. In accordance with s.57(7) of the Act, this decision shall be valid for a period of one year from the date of this decision.



Teo Eng Cheong  
Chief Executive  
Competition Commission of Singapore

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<sup>13</sup> For instance, if volume is sufficiently large, buyers like hotels, restaurants or supermarkets can bypass local distributors to buy directly from food exporters abroad.