



Statement of Issues

14 February 2020

Bunnings Group Limited – proposed acquisition of Adelaide Tools and Oaklands Mower Centre

Purpose

1. Bunnings Group Limited (Bunnings) proposes to acquire the business and business assets of R.W. & M. Peach Pty Ltd, in its capacity as the trustee of The Peach Family Trust, which carries on the business of Adelaide Tools and Oaklands Mower Centre (together, Adelaide Tools).
2. This Statement of Issues:
 - gives the preliminary views of the Australian Competition and Consumer Commission (**ACCC**) on competition issues arising from the proposed acquisition;
 - identifies areas of further inquiry; and
 - invites interested parties to submit comments and information to assist our assessment of the issues.
3. Statements of Issues do not refer to confidential information provided by the parties or other market participants and therefore may not necessarily represent a full articulation of the ACCC's preliminary position.

Overview of ACCC's preliminary views

4. The legal test which the ACCC applies in considering the proposed acquisition is set out in section 50 of the *Competition and Consumer Act 2010*. In general terms, section 50 prohibits acquisitions that would have the effect, or be likely to have the effect, of substantially lessening competition in any market.
5. The ACCC divides its preliminary views into three categories, 'issues of concern', 'issues that may raise concerns' and 'issues unlikely to raise concerns'. In this Statement of Issues there is one 'issue that may raise concerns' and one 'issue unlikely to raise concerns.'

Issue that may raise concerns

6. The ACCC is concerned that the proposed acquisition may substantially lessen competition in the retail supply of tools, equipment and outdoor power equipment (collectively, **T&E**) in the Adelaide metropolitan region.

Issues unlikely to raise concerns

7. The ACCC's preliminary view is that the proposed acquisition is unlikely to result in a substantial lessening of competition in the wholesale supply of T&E in Australia.

Making a submission

8. The ACCC is seeking submissions from interested parties, particularly on the following key issues:
 - the extent to which Bunnings and Adelaide Tools compete to supply like-for-like products to customers;
 - the extent to which Adelaide Tools is an effective and vigorous competitor in the supply of T&E in Adelaide;
 - the extent to which the combined Bunnings-Adelaide Tools is likely to be constrained by other retailers of T&E post-acquisition;
 - the likelihood of new entry or expansion into Adelaide; and
 - the extent to which the proposed acquisition would increase Bunnings' purchasing power over wholesale T&E suppliers.
9. Detailed discussion of these and other issues, along with specific questions, is contained in this Statement of Issues.
10. Interested parties should provide submissions by no later than 5pm on 6 March 2020. Responses may be emailed to mergers@acc.gov.au with the title: Submission re: Bunnings/Adelaide Tools - attention Gennady Kleiner/Nigel Vise. If you would like to discuss the matter with ACCC officers over the telephone or in person, or have any questions about this Statement of Issues, please contact Gennady Kleiner on (03) 9290 1842 or Nigel Vise on (03) 9290 1468.
11. The ACCC anticipates making a final decision on 23 April 2020, however, this timeline can change. To keep abreast of possible changes in relation to timing and to find relevant documents, interested parties should visit the Mergers Register on the ACCC's website at www.accc.gov.au/publicregisters/mergers-registers/public-informal-merger-reviews.

Confidentiality of submissions

12. The ACCC will not publish submissions regarding the proposed acquisition. We will not disclose submissions to third parties (except our advisors/consultants) unless compelled by law (for example, under freedom of information legislation or during court proceedings) or in accordance with s155AAA of the *Competition and Consumer Act 2010*. Where the ACCC is required to disclose confidential

information, the ACCC will notify you in advance where possible so that you may have an opportunity to be heard. Therefore, if the information provided to the ACCC is of a confidential nature, please indicate as such. Our [Informal Merger Review Process Guidelines](#) contain more information on confidentiality.

About ACCC ‘Statements of Issues’

13. A Statement of Issues published by the ACCC is not a final decision about a proposed acquisition, but provides the ACCC’s preliminary views, drawing attention to particular issues of varying degrees of competition concern, as well as identifying the lines of further inquiry that the ACCC wishes to undertake.
14. A Statement of Issues provides an opportunity for all interested parties (including customers, competitors, shareholders and other stakeholders) to ascertain and consider the primary issues identified by the ACCC. It is also intended to provide the merger parties and other interested parties with the basis for making further submissions should they consider it necessary.

Timeline

Date	Event
5 November 2019	ACCC commenced review of the proposed acquisition
14 February 2020	ACCC publication of Statement of Issues
6 March 2020	Deadline for submissions from interested parties in response to this Statement of Issues
23 April 2020	Anticipated date for ACCC final decision

The parties

15. Bunnings is Australia’s largest multi-category retailer operating in the T&E, building supplies and home improvement sector. Bunnings operates 302 stores throughout Australia, including twelve warehouses and two Bunnings Trade Centres in the Adelaide metropolitan area. Bunnings predominantly caters to two sets of customers – do-it-yourself (**DIY**) customers and trade customers.
16. Bunnings is a subsidiary of Wesfarmers Limited, one of the largest companies in Australia. J. Blackwood & Son Pty Ltd (**Blackwoods**) is another subsidiary of Wesfarmers Limited that also supplies tools, targeting industrial customers.
17. Adelaide Tools is a family-owned business that specialises in sales of T&E. It operates five retail stores and Oaklands Mower Centre in the Adelaide metropolitan area. Adelaide Tools predominantly supplies to trade customers, but also caters for industrial customers and ‘serious DIY’ customers.

Industry background

T&E

18. Retailers selling T&E commonly supply a range of tools (power tools, hand tools and tool accessories), equipment (storage) and outdoor power equipment. Common examples of products include:
- power tools: drills, sanders, angle grinders and circular saws, as well as welding, soldering and joining tools
 - hand tools: hammers, screwdrivers, spanners, hand saws, chisels and socket sets
 - tool accessories: drill bits, screwdrivers bits, abrasives, blades, holesaws and multi-tool accessories
 - storage: tool chests, tool belts and tool bags, and
 - outdoor power equipment: chainsaws, lawnmowers, hedge trimmers, blowers and garden tool accessories.
19. T&E comes in a range of different quality standards, suitable for different uses:
- highly specialised (expensive) trade quality T&E, which are generally only required for specific trade or industrial purposes
 - less specialised (less expensive) trade quality T&E, routinely used by trade customers for their work or by serious DIY customers, and
 - consumer quality T&E, suited more for occasional use by DIY customers.

Retailers of T&E

20. The manufacturers of T&E distribute their products in Australia through a range of retailers, which sell T&E in-store and online.

Multi-category retailers

21. Multi-category retailers supply T&E as part of their broader big-box product offering. The largest two multi-category retailers in Australia are Bunnings and the Independent Hardware Group (**IHG**), representing brands including Mitre 10, Home Timber & Hardware, and True Value Hardware.

Specialist T&E retail chains

22. Specialist T&E chains specialise in the retail supply of T&E, particularly to trade customers. Total Tools is the only national T&E specialist, operating 81 stores across all states and territories in Australia, including six stores in South Australia. Total Tools operates under a franchise model.
23. The next largest specialist T&E chain (by number of stores) is Sydney Tools, a privately-owned chain that operates 32 stores across NSW and Victoria, as well as one store in Queensland.

24. Other specialist T&E retail chains are based in a single state or territory and include Trade Tools (18 stores in Queensland), Toolmart (12 stores in Western Australia) and Adelaide Tools (5 stores and one Oaklands Mower Centre in South Australia).

Other retailers

25. There are a number of retail chains that supply T&E catering for trade customers operating in a specific industry or DIY customers. For example, Reece supplies a selection of T&E as parts of its broader offering to plumbers. Other retailers include Stratco, Repco, Laurence & Hanson, and Supercheap Auto.
26. There are also many small independent sole-trader stores selling T&E. Some independents specialise in selling either tools or outdoor power equipment, while some sell both. There are a number of different buying groups that purchase and negotiate supply agreements with wholesale suppliers on behalf of small independent stores. Examples include Natbuild, Australian Industrial Suppliers, Hardware & Building Traders, and United Tools. Independent member stores may operate under the buying group's branded banner (e.g. United Tools) or continue to operate under their own brand (e.g. Natbuild).
27. Further, some manufacturers have set up their own branded stores to sell their products directly to consumers. For example, Stihl operates retail stores across Australia selling outdoor power equipment.

Online sales

28. Many retailers, including specialist T&E retail chains, operate an online store. A number of retailers offer delivery via "click and collect" service, where customers can nominate to have their order delivered to a selected retailer's store, while other retailers deliver T&E to the customer's nominated address.
29. Market inquiries indicate that online sales act primarily as a complement to in-store sales. Customers use online stores to conduct research, compare prices and check stock availability. Information obtained by the ACCC indicates that online sales typically constitute less than 10 per cent of most retailers' total sales and growth of online sales has not been significant to date.

Purchasers of T&E

30. The customers who purchase T&E broadly fall into three segments – DIY, trade and industrial. Based on market feedback, the ACCC considers that these customer segments tend to exhibit the characteristics set out below.
31. DIY customers typically purchase T&E for occasional personal use, rather than for their employment. In general, DIY customers have a stronger focus on price and convenience than product quality and reliability, and prefer to shop at retailers that offer a 'one-stop-shop'. For this reason, DIY customers typically prefer to shop at multi-category retailers, but more serious DIY customers will also shop at specialist T&E stores.
32. Trade customers typically purchase T&E for their employment. In general, trade customers have a stronger focus on product quality and reliability, while still considering price and convenience as important factors. In some cases, trade customers prefer to purchase from specialist T&E stores – for example if they

require specialised T&E or expert advice. In other cases, for example when they require T&E that they routinely use and know well (including accessories), trade customers will typically choose between different retailers, including T&E specialists and multi-category retailers, based on convenience and price.

33. Industrial customers typically purchase T&E in bulk for large-scale industrial projects. Given their specific needs, industrial customers typically prefer to purchase T&E from industrial supply specialists, such as Blackwoods. Some industrial customers will also buy T&E from T&E specialists, such as Adelaide Tools, which otherwise predominantly supply to trade customers.

Market definition

34. The ACCC's starting point for defining relevant markets to assess the competitive effects of the proposed acquisition involves identifying the products actually or potentially supplied by the merger parties. The ACCC then considers what other firms do (or could) supply the same products or other products that constitute sufficiently close substitutes to the products supplied by the merger parties such that those other firms provide a significant source of constraint on the merged entity. The supply of T&E is the area of overlap between Bunnings and Adelaide Tools and is therefore the starting point for the ACCC's analysis.
35. The ACCC assessed the competitive effects of the proposed acquisition in both the retail and the wholesale markets, which are discussed below.

Retail market for the supply of T&E

36. The ACCC's preliminary view is that the relevant retail markets are for the retail supply of T&E in the Adelaide metropolitan region.
37. The following section covers the areas of product overlap and the geographic scope of the relevant markets. Issues relating to customer and supplier substitution are explored under the competition issue headings below.

Product dimension of the market

38. The ACCC considered whether there are separate markets for the retail supply of:
 - each of power tools, hand tools, tool accessories, tool equipment and outdoor power equipment, or
 - a combination of some, or all, of these products.
39. Market inquiries indicate that many retailers, including the merger parties, sell a combination of these products in their stores. This is primarily due to demand-side and supply-side efficiencies in selling these products together. For example, trade customers generally need a range of T&E to complete their jobs and prefer to shop for them at the same store. In addition, many T&E manufacturers develop T&E across a range of categories and distribute them together via the same channels. This makes it efficient for T&E retailers to both procure and sell a variety of T&E categories in their stores.

40. On this basis, the ACCC's preliminary view is that the relevant product market for the purpose of assessing the competitive effects of the proposed acquisition is likely to include a combination of some, or all, of T&E.
41. However, the ACCC's concerns remain if it were to consider separate markets for the retail supply of each category of T&E, as narrowing the market definition would not substantially change the competition assessment for most T&E categories, including power tools.
42. The ACCC also considered whether there is a market for sales of T&E to trade customers, separate from sales of T&E to DIY customers. As Bunnings and other multi-category retailers sell to both customer types, and specialist T&E retail chains also make some sales to DIY customers, the ACCC's approach at this stage is to treat both customer segments as within the same market. This is also a result of supply-side efficiencies of selling T&E to both customer types. For example, many T&E manufacturers develop T&E across a range of functionality, quality and price levels that appeal to different customer types. However, as is discussed below in the competition assessment, the focus of the ACCC's investigation is on sales to trade customers.

Geographic scope of the market

Adelaide metropolitan region

43. The ACCC considers that in markets involving retail chains, competition may occur at more than one geographic level. While all retailers compete to attract customers from other similar retailers in the same local area, retail chains also compete through elements of their overall retail offers, which may be determined across a broader area.
44. Market inquiries indicate that Adelaide Tools and other retail T&E chains compete with each other on the basis of their Adelaide-wide (or broader) offers.
45. Therefore, the ACCC's preliminary view is that the Adelaide metropolitan region is likely to be a relevant area in which to assess the competition effects of the proposed acquisition.

Local areas

46. The ACCC considers that the local areas around each of the five Adelaide Tools stores and Oaklands Mower Centre are also relevant to the competition assessment, as there are some elements of the offers of retail T&E chains that vary depending on the local competitive dynamics.
47. For example, how much effort T&E retailers put into service quality, store fit-outs or how aggressively T&E retailers discount certain products will likely depend on the local alternatives available. Further, market inquiries indicate that some customers are not willing to travel long distances to purchase from a competitor and online sales are not a strong substitute to in-store sales.
48. Therefore, while the competition analysis below is focused on the Adelaide metropolitan region, it should be also taken to apply to each of the local areas around Adelaide Tools' stores.

National effects

49. The ACCC also considers that there may be some national effects of the retail offer of Adelaide Tools, as it operates an online store and retail T&E chains occasionally respond to Adelaide Tools' prices through customer initiated price matches or by lowering the prices of their T&E in stores outside of South Australia.
50. However, the ACCC understands that other retail T&E chains do not typically respond to Adelaide Tools' prices on a national basis. Further, Adelaide Tools does not make significant sales outside of South Australia, as it does not have any stores outside of South Australia. On this basis, the ACCC's preliminary view is that there are unlikely to be competition concerns in a national market for retail supply of T&E in relation to this proposed acquisition.

Wholesale market for the supply of T&E

51. The ACCC's preliminary view is that the relevant wholesale market is the wholesale supply of T&E in Australia.
52. Market inquiries indicate that retailers purchase T&E from a supplier under a single contract, rather than through separate contracts for different categories of T&E. On this basis, it is relevant to consider the supply of all T&E for the purpose of assessing the competitive effects of the proposed acquisition in the wholesale market.
53. In terms of the geographic scope, market inquiries indicate that upstream suppliers of T&E distribute their products across the whole of Australia and negotiate supply contracts with T&E retailers on a nationwide basis. On this basis, the relevant market is the wholesale supply of T&E in Australia.

The ACCC invites comments from market participants on market definition, including:

- The importance of retailers being a one-stop-shop for customers' T&E needs.
- The reasons why T&E retailers tend to supply a range of different T&E products, rather than just one category of products, for example power tools.
- Whether there are any retailers that sell only one category of products, for example power tools or hand, and if so, the reasons why.
- The extent to which T&E retailers compete on price or non-price factors at individual stores, instead of, or in addition to, competing on a state or national level.
- How far customers are willing to travel in order to purchase T&E, and whether this differs between trade and DIY customers, or between different types of T&E.

Issue that may raise concerns: reduction in competition for the retail supply of T&E in Adelaide

54. The ACCC's preliminary view is that the proposed acquisition will increase concentration and may substantially lessen competition in relation to the retail supply of T&E to customers in the Adelaide metropolitan region.

Bunnings is a major supplier of T&E to trade customers in Adelaide

55. Market inquiries indicate that Bunnings is often perceived as focusing on supplying DIY customers. However, information obtained by the ACCC shows that Bunnings is also a major supplier of T&E to trade customers in Adelaide.
56. Bunnings stocks a number of trade quality T&E brands, including Makita, DeWalt, Bosch Blue, AEG, Irwin, Stanley, Kincrome and Sidchrome. Bunnings also offers PowerPass trade accounts to professional trade customers and a substantial proportion of Bunnings' sales of T&E are made to customers with PowerPass accounts.

Adelaide Tools is a vigorous and effective competitor to Bunnings in Adelaide

57. The ACCC's preliminary view is that Adelaide Tools provides an important competitive constraint on Bunnings in the retail supply of T&E in Adelaide. Market inquiries indicate that Adelaide Tools has a strong reputation and competes aggressively on price, brand and product range, quality of service and a range of other factors, particularly for supply to trade customers.
58. Bunnings submitted to the ACCC that it does not compete closely with Adelaide Tools due to the limitations of its big-box store format. In particular, Bunnings submitted that it cannot effectively compete for supply to trade customers because it has less floor space for T&E, it does not stock the highly specialised trade quality T&E, its sales team has less technical expertise and it does not offer the same level of after-sales service and support.
59. The ACCC acknowledges that trade customers who require highly specialised T&E or expert advice may be more likely to shop at specialist T&E retail chains than at Bunnings. However, the ACCC considers that there is a significant proportion of trade customers who require less specialised (but still trade quality) T&E and do not require much advice as they are frequent and informed users of T&E. Therefore, these customers may be likely to readily substitute between Adelaide Tools and Bunnings for their trade quality T&E purchases. Bunnings' significant sales to trade customers reflect this.
60. The ACCC's preliminary view is that Adelaide Tools competes closely with Bunnings, notwithstanding the differences in their retail format.

The proposed acquisition may reduce competition in Adelaide

61. The ACCC is concerned that the proposed acquisition may reduce competition for retail supply of T&E to customers in the Adelaide metropolitan region. In particular, the ACCC is concerned that there will be fewer retail T&E chains vigorously competing for sales, leading to customers paying higher prices or receiving a lower quality of service.

62. While Bunnings submitted that it will operate Adelaide Tools as a standalone business, the ACCC's preliminary view is that the proposed acquisition will significantly increase concentration and reduce Adelaide Tools' incentives to aggressively compete with Bunnings for retail supply of T&E in Adelaide. For example, due to Bunnings' 'lowest prices' guarantee, the combined Bunnings-Adelaide Tools will have a strong incentive to stop Adelaide Tools' branded stores from undercutting Bunnings' big box stores on prices of identical and potentially even like-for-like T&E products. Further, the merged entity may find it worthwhile to increase Adelaide Tools' prices or reduce its quality of service to the extent that some dissatisfied customers may substitute their purchases to Bunnings.
63. The ACCC considers that the combined Bunnings-Adelaide Tools will continue to face competition from Total Tools, which has a nationwide presence, including six stores in Adelaide, and already competes strongly with Bunnings and Adelaide Tools.
64. The ACCC's preliminary view is that customers of Bunnings or Adelaide Tools are much less likely to substitute to other specialist T&E retail chains given none of them presently operate stores in Adelaide. Therefore, the other specialist T&E retail chains are likely to provide less of a constraint on the combined Bunnings-Adelaide Tools entity than Total Tools.
65. While many of these specialist T&E retail chains operate an online store, market inquiries indicate that trade customers generally prefer to shop in-store and do not regard online sales as a strong substitute, for example because:
 - they often have an incentive to obtain products quickly to continue working
 - they often prefer to see and feel handheld tools, and
 - they value the relationship they have with their T&E retailer.
66. Further, IHG, the second largest multi-category retailer in Adelaide, is likely to continue to provide some constraint on Bunnings post acquisition. However, market feedback indicates that IHG stores do not compete strongly with Bunnings and the specialist T&E retail chains on price, range or service for the supply of T&E to trade customers.
67. Finally, while the Bunnings-Adelaide Tools entity will face some competition from non-specialist T&E retailers, the ACCC's preliminary view is that their constraint on the Bunnings-Adelaide Tools entity is likely to be much less compared to the competitive constraint of specialist T&E retail chains. A number of these retailers target customers in a particular industry (e.g. Reece targets plumbers) and/or stock a relatively narrow range of T&E (e.g. some don't sell power tools), while small independent retailers often don't have the scale to compete vigorously with large retail chains on price.
68. Overall, while the combined Bunnings-Adelaide Tools entity will continue to face competition from Total Tools post acquisition, the ACCC's preliminary view is that other retailers will provide less constraint on the combined entity, so the reduction in competition for retail sales of T&E in Adelaide may be substantial.

Prospect of new entry into Adelaide

69. The ACCC's preliminary view is that there are high barriers to setting up a brand new specialist T&E retail chain or multi-category hardware chain selling T&E. New entrants are likely to find it difficult to obtain access to suppliers and compete with incumbent T&E retail chains on price due to the advantages conferred by economies of scale.
70. The ACCC's preliminary view is that barriers to interstate expansion of existing specialist T&E retail chains are likely to be lower. For example, in July 2019, Sydney Tools announced that it plans to open new stores in every state and territory of Australia over the next five years.¹
71. The ACCC continues to consider the likelihood of Sydney Tools or another specialist T&E retail chain outside of South Australia expanding into Adelaide and the effect that this (or the threat of expansion) is likely to have on future competition in the Adelaide metropolitan region.

ACCC's preliminary view

72. In summary, the ACCC is concerned that the proposed acquisition may substantially lessen competition in the retail supply of T&E to customers in the Adelaide metropolitan region.

The ACCC invites comments from market participants on its concerns in relation to this issue. In particular market participants may wish to comment on the following:

- The extent to which Bunnings and Adelaide Tools compete to supply T&E to customers, including the same products or products with similar functionality, quality or price.
- The extent to which Adelaide Tools is a vigorous and effective competitor for the supply of T&E in Adelaide, including by providing competitive pricing, service and product range.
- The level of constraint that would apply to the combined Bunnings-Adelaide Tools by existing competitors in Adelaide, including Total Tools, IHG, independent tool retailers, and category specialists such as Reece, Repco and Stratco.
- The level of constraint that would apply to a combined Bunnings-Adelaide Tools by competitors in other states, including the impact of national pricing policies and the ability to purchase T&E online.
- The likelihood of new entry into Adelaide, the barriers to entry, and the extent to which new entry (or the threat of entry) could constrain the combined Bunnings-Adelaide Tools.
- How customers generally would respond if Adelaide Tools' prices increased or its service quality decreased. E.g. how likely would it be for customers to continue to shop at Adelaide Tools, switch to Bunnings, or switch to another retailer?

¹ <https://insideretail.com.au/news/sydney-tools-to-add-40-stores-in-next-five-years-201907>

Issue unlikely to raise concerns: reduction of competition in the wholesale T&E market in Australia

73. The ACCC's preliminary view is that the proposed acquisition is unlikely to substantially increase Bunnings' market power as a wholesale purchaser of T&E in Australia.

Increase in Bunnings' market power is unlikely to be substantial

74. The ACCC's preliminary view is that Bunnings already holds significant market power as a purchaser of T&E in the wholesale market in Australia. Market inquiries indicate that for a number of upstream T&E suppliers, sales to Bunnings constitute a substantial proportion of their national sales.
75. The ACCC considers that as upstream suppliers become more dependent on Bunnings, this puts Bunnings into a stronger position to negotiate exclusive arrangements for the supply of T&E brands, or to negotiate more favourable prices and supply terms that would not be available to other T&E retailers. This may increase difficulty for other retailers to compete or otherwise increase barriers to expansion or entry.
76. The ACCC's preliminary view is that sales to Adelaide Tools are likely to constitute a small proportion of the key upstream T&E suppliers' Australian sales. Therefore, any incremental increase in Bunnings' market power arising from the proposed acquisition is unlikely to be substantial.

ACCC's preliminary view

77. The ACCC's preliminary view is that because the incremental increase in Bunnings' market power at the wholesale level appears likely to be small, the proposed acquisition is unlikely to substantially lessen competition for wholesale supply of T&E in Australia.

The ACCC invites comments from market participants on its concerns in relation to this issue. In particular market participants may wish to comment on the following:

- The extent to which acquisition of Adelaide Tools is likely to provide Bunnings with additional market power in the wholesale T&E market, for example, an increased ability to negotiate exclusive arrangements or more favourable prices and supply terms that would not be available to other T&E retailers.
- Whether the change of ownership of Adelaide Tools is likely to lead to any material differences in the competitive dynamics of the wholesale supply of T&E.

ACCC's future steps

78. As noted above, the ACCC now seeks submissions from market participants on each of the issues identified in this Statement of Issues and on any other issue that may be relevant to the ACCC's assessment of this matter. Submissions are to be received by the ACCC no later than 6 March 2020 and should be emailed to mergers@acc.gov.au.

79. The ACCC will finalise its view on this matter after it considers submissions invited by this Statement of Issues.
80. The ACCC intends to publicly announce its final view by 23 April 2020. However the anticipated timeline may change in line with the *Informal Merger Review Process Guidelines*. A Public Competition Assessment for the purpose of explaining the ACCC's final view may be published following the ACCC's public announcement to explain its final view.