Customer negotiation and switching

1. This appendix sets out our analysis of:

   (a) switching;

   (b) switching to and from imports; and

   (c) competitive bidding by NCSW.

Switching

2. The customer survey showed that the average length of supply relationship with a principal supplier was about nine years for PDV salt and about eight and a half years for compacted salt, with nearly 40 per cent of customers having been with their existing supplier for ten years or more.

3. The customer survey also illustrated that 20 per cent of respondents have stopped using a supplier within the last three years.[1] This figure, and the length of customer relationships together, suggest that the level of switching overall is in the range 6 to 10 per cent a year of a particular supplier's customer base. The lower bound is based on what the customer survey told us about suppliers no longer used, and the upper bound on the basis of the length of customer relationship.

Switching between British Salt and NCSW

4. British Salt provided a list of British Salt and NCSW customers that have switched in the period 2000 to 2004. British Salt suggested that of a total combined 2004 customer base of [✄][2], only six customers switched supply volumes from British Salt to NCSW between 2003 and 2004, accounting for [✄] per cent of British Salt's total

[1]This may be an underestimate of switching due to customers switching volumes between suppliers without terminating a supplier relationship completely.
[2]This customer base figure does not aggregate customers having salt delivered to different locations.

sales volume. In the same period, nine customers switched from NCSW to British Salt, representing around [✂] per cent of NCSW's total sales volume.

5. The switching data provided by British Salt showed that 28 customers had switched from British Salt to NCSW in the last four years (2000 to 2004). This amounted to an average of seven switchers a year ([✂] per cent of British Salt's customer base). In 2000/01 and 2001/02, switching levels were higher. Table 1 illustrates this:

TABLE 1 **Customers switching to NCSW from British Salt, 2000 to 2004**

	2000/01	*2001/02*	*2002/03*	*2003/04*
Number of customers	13	7	5	3

Source: CC analysis of British Salt data.

6. British Salt also provided a list of NCSW's 50 largest increases and 50 largest decreases in volumes for 2000 to 2004. Table 2 presents these results.

TABLE 2 **Volumes gained and lost by NCSW, 2000 to 2004**

tonnes

	2000/01	*2001/02*	*2002/03*	*2003/04*
Total volumes				
Top 50 volumes gained				
Top 50 volumes lost				
Net volumes gained				
Of which:		[✂]		
Volumes gained from BS				
Volumes lost to BS				
Net volumes gained				
Volumes gained from Salt Union				
Volumes lost to Salt Union				
Net volumes gained				

Source: CC analysis of NCSW data.

Note: Salt Union figures added on basis of Salt Union data. Only known volumes gained and lost to British Salt and Salt Union are stated, hence these figures may be underestimates. Columns may not tally due to rounding.

7. Table 2 suggests that in total around [✂] tonnes were being both gained and lost by NCSW each year, amounting to just over 10 per cent of NCSW production. NCSW was gaining (on a gross basis) around [✂] tonnes a year from British Salt and [✂] tonnes a year from Salt Union (a combined total of [✂] tonnes or nearly 2 per cent of

NCSW annual production). These figures may be higher as not all volumes gained and lost are from and to a known source

Switching between Salt Union and NCSW

8. In addition to the switching data provided by British Salt, Salt Union also provided details of its new and lost customers for 2000 to 2005. Tables 3 and 4 summarize this data:

TABLE 3 **Volumes gained and lost by Salt Union, 2000 to 2005**

tonnes

	2000	*2001*	*2002*	*2003*	*2004*	*2005*
Total volumes						
Volumes gained						
Volumes lost				[✂]		
Of which:						
Volumes gained from NCSW						
Volumes lost to NCSW						

Source: CC analysis of Salt Union data.

Note: Not all volumes lost and gained are to a named source. Losses do not include customer closures. Excludes UV volumes.

TABLE 4 **Volumes gained and lost on price by Salt Union, 2000 to 2005**

tonnes

	2000	*2001*	*2002*	*2003*	*2004*	*2005*
Total volumes						
Volumes gained						
Volumes lost				[✂]		
Of which:						
Volumes gained from NCSW						
Volumes lost to NCSW						

Source: CC analysis of Salt Union data.

Notes:
1. Not all volumes lost and gained are to a named source. Losses do not include customer closures. Excludes UV volumes.
2. N/A = not available.

9. Table 3 and Table 4 reveal that Salt Union lost on average around [✂] tonnes of non-UV volumes a year ([✂] per cent of Salt Union non-UV production), of which on average [✂] tonnes were lost on price. NCSW accounted for on average [✂] tonnes of the volumes lost on price ([✂] per cent of [✂] tonnes).

10. This picture was similar when analysed on a customer numbers basis, with NCSW picking up [✄] of the [✄] customers ([✄] per cent) lost by Salt Union over the last five years, and [✄] lost on price ([✄] per cent). The data suggests that some [✄] customers are lost each year, amounting to slightly [✄] per cent on a customer base of around [✄] (this customer base does not include all Direct Salt customers, which only became part of Salt Union's customer lists recently). In practice, these figures may be underestimates as not all volumes gained and lost are from a known source.

Switching in the market

11. The data above allows us to build a general picture of switching in the market. If switching is assumed to be around 10 per cent based on the average length of customer relationships revealed by the survey data, this would imply that, from a total customer base (for the three main suppliers, excluding Salt Union Direct Salt customers) of [✄], the maximum number of switchers in any one year would be about [✄].

12. If, on the other hand, switching is assumed to be nearer the 5 per cent implied by [✄] or the 6 per cent based on survey responses regarding suppliers no longer used, this would imply only around [✄] switchers a year.

13. On the basis that NCSW picked up a minimum of [✄] customers a year from British Salt and Salt Union, it would account for between 6 and 13 per cent of switchers.

Switching to and from imports

14. Evidence on switching to and from imports from the data submitted by the foreign producers is presented in Table 5 and Table 6.

TABLE 5 **Switchers to importers, 2002 to 2004**

		new customers	
	2002	*2003*	*2004*
Akzo	[✂]	[✂]	[✂]
ESCO	[✂]	[✂]	[✂]
Salins du Midi	[✂]	[✂]	[✂]
Total	1	0	5

Source: CC analysis of Akzo, Salins du Midi and ESCO data.

Note: N/A = not available.

TABLE 6 **Switchers from importers, 2002 to 2004**

		lost customers	
	2002	*2003*	*2004*
Akzo	[✂]	[✂]	[✂]
ESCO	[✂]	[✂]	[✂]
Salins du Midi	[✂]	[✂]	[✂]
Total	1	1	25

Source: CC analysis of Akzo, Salins du Midi and ESCO data.

15. This analysis does not reveal much switching to imports but it does show switching from [✂] in 2004. However, it may disguise the actual number of customers switching to imports via distributors, since foreign producer volumes have fluctuated in this period. Appendix F examines changes in import volumes.

Competitive bidding by NCSW

16. British Salt has provided a list of the competitive bidding situations which NCSW has participated in since 2002. British Salt noted that the 'bidding data' illustrated a limited competitive dynamic between British Salt and NCSW. [✂].

17. Table 7 shows that NCSW was involved in 261 competitive bidding situations between 2002 and 2004 (ie on average 87 occasions a year). There were 56 occasions (21 per cent of those listed) between 2002 and 2004 in which NCSW bid competitively against British Salt (ie on average 19 occasions a year). Of these, there were 12 occasions where both British Salt and NCSW bid for non-NCSW customers, and 44 occasions in which British Salt competed for existing NCSW customers.

TABLE 7 **NCSW competitive bidding situations, 2002 to 2004**

number of bids

	2002	*2003*	*2004*
NCSW competitive bids	100	87	74
BS also bidding	21	18	17

Source: CC analysis of British Salt data.

18. We have focused our analysis of the bidding data on those customers that NCSW tried to win from British Salt, Salt Union or a distributor. Concentrating on this dynamic illustrates how active NCSW is in competing with British Salt and Salt Union, and how much it directly competes with British Salt and Salt. Our analysis therefore ignores the 44 occasions on which NCSW and British Salt have both bid for an existing NCSW customer. We did not have sufficiently robust data on this dynamic to allow us to undertake the same analysis.

Number of bids

19. British Salt has told us that the data captures *all* the occasions in which NCSW has been invited to bid from 2002 to 2004. The bidding data shows that over the last three years NCSW has tried to win new customers on 33 occasions. This amounts to attempts to win 11 customers a year on average, which is equivalent to around [✂] per cent of NCSW's customer base of around [✂] and compares with an assumed switching rate of [✂] per cent.

20. Table 8 shows capacity utlization and EBITDA over the last five years and NCSW's competitive behaviour over the last three years. This table suggests that over the last three years, as NCSW has become more profitable with less spare capacity, its level of active competition in the market as indicated by the number of times it has tried to win new customers has decreased.

TABLE 8 **NCSW competitive behaviour**

	2000	*2001*	*2002*	*2003*	*2004*
Capacity utilization (based on capacity of 80,000 tonnes) (per cent)	[✂]	[✂]	[✂]	[✂]	[✂]
EBITDA (£)	885,662	605,490	544,986	871,080	985,823
Competitive quotes for non-NCSW customers	N/A	N/A	17	11	5
Of which, existing BS customers	N/A	N/A	7	5	3
And, of which, BS also bid	N/A	N/A	5	5	2
Total competitive quotes won by NCSW for new customers	N/A	N/A	13 (76%)	2 (18%)	0

Source: CC analysis of British Salt data.

Notes:
1. In terms of PDV and compacted, only 5 of the 33 occasions when NCSW has competitively bid for non-NCSW customers relate to compacted salt. The rest relate to PDV salt.
2. N/A = not available.

Size of customer

21. The average volumes that NCSW competed for is around [✂] tonnes. Excluding compacted customers this rises to nearer [✂] tonnes. Seven of the 33 customers relate to volumes larger than [✂] tonnes a year.

22. NCSW has stated that for PDV, any customer wishing to increase demand of a higher margin PDV by [✂] tonnes would require it to drop some lower margin business. It goes on to state that any increase above [✂] tonnes would be politely declined. However, NCSW bid to supply [✂] with around 2000 tonnes of PDV in 2003 and also to supply [✂] with in excess of 2000 tonnes in 2004 and in 2002. It was successful in the 2002 bid to supply [✂], but unsuccessful in the other two bids. We have been told that had it been successful in these two most recent bids it would have had to drop some lower margin business.

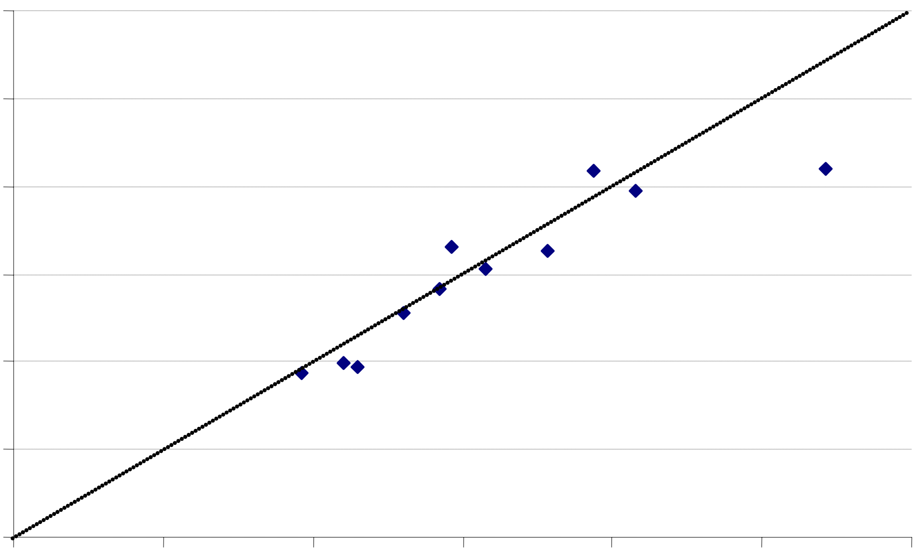
Bid prices

23. Figure 1 shows a comparison of bids for the 11 occasions where NCSW has bid for non-NCSW customers of PDV salt and British Salt has also bid. We have not analysed the one occasion where both NCSW and British Salt bid for a non-NCSW

compacted customer. British Salt told us that the bid data provided by British Salt is comparable to that provided for NCSW.

FIGURE 1

Comparison of British Salt and NCSW bid prices for PDV salt for non-NCSW customers, 2002 to 2004



Source: CC analysis of British Salt data.
Note: This chart shows only PDV salt bids. There is one further bid comparison for compacted salt which is not shown, but this does not change the picture.
[✂].

24. Figure 1 shows that bid prices are broadly similar when viewed against a 45-degree line (the point at which bid prices are equal). Analysis of the data shows that NCSW is cheaper on [✂] occasions. British Salt bids are cheaper on average by [✂] per tonne ([✂] per tonne on a volume-weighted average basis). However, we note that there are a limited number of data points in this analysis.

Success rate of NCSW

25. As Table 8 shows, NCSW's success rate in winning non-NCSW customers has fallen over the last three years. In 2002 it won 76 per cent of those new customers it bid for, compared with none in 2004. This may suggest it has become less aggressive in competing for customers.

26. There are [✂] examples of British Salt retaining a customer despite NCSW bidding at a lower price:

[✂].

27. [✂]