

## CHAPTER 2

### The textile maintenance markets

#### Introduction

2.1. BET's interests extend over a wide range of service activities but its only significant area of overlap with Initial is in the textile maintenance and associated hand-drying activities undertaken by BET's subsidiary, Advance Services PLC (Advance). Table 2.1 provides estimates of turnover in the textile maintenance market in 1983 analysed by company and market sector.

2.2. Within the textile maintenance market we use the terms<sup>1</sup> 'laundry' and 'dry cleaning' to cover the commercial servicing of textiles owned by the customer and 'textile rental' to mean the renting out to customers and regular cleaning of textiles owned by the renting company. The trade distinguishes between domestic laundry or dry cleaning and contract laundry or dry cleaning, which is the service provided to industrial and commercial customers for, for example, workwear or hotel linen. Contract dry cleaning, however, is relatively unimportant.

2.3. There are five main categories of textile rental, four of which serve mainly industrial and commercial businesses and one which serves mainly hotels. We deal with the categories serving industrial and commercial businesses first as these are of greater significance in this reference. The five categories are as follows:

- (a) workwear rental, also known as garment rental, being the hire, largely to employers, of such items as boilersuits, chefs' jackets and trousers, overalls, uniforms etc, including what is called career apparel. In all branches of workwear rental the garment is normally sized and marked for a particular wearer;
- (b) cabinet towel rental, being the hire of wall cabinets containing continuous towels for use mainly in offices, catering establishments and factories;
- (c) dust mat rental, dust mats being entrance or corridor mats, either impregnated with fluids or of special material or weave designed to remove dirt and dust from shoes;
- (d) industrial wiping cloth rental; and
- (e) linen rental, also known as flatwork rental or linen hire, being the hire of sheets, pillowcases, hand towels, bath towels, bath mats, tablecloths and napkins to hotels or caterers.

2.4. It was put to us, by both BET and Initial, that cabinet towel rental needs to be considered in the context of the 'hand-drying' market as a whole including paper towels and warm air dryers as well as textile towels. Accordingly we have examined the rôle of these products in the hand-drying market and show estimates of market shares.

---

<sup>1</sup> These are the same definitions as used in 'The Sunlight Service Group PLC and Johnson Group Cleaners PLC and Initial PLC and Johnson Group Cleaners PLC'—Cmnd 8868, May 1983, hereinafter referred to as the 1983 report.

TABLE 2.1 Turnover in the textile maintenance markets, 1983

Company	Workwear rental		Cabinet towel rental		Dust mat rental		Industrial wiping cloth rental		Linen rental		Laundry		Dry cleaning		Ancillary*	Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	£m	%
Initial	29.4	23	23.4	38	7.8	39	15.3	76	0.6	1	1.9	4	—	—	14.6	93.0	18
Advance	6.6	5	15.3	25	2.7	13	—	—	3.3	7	4.7	9	0.2	—	4.5	37.3	7
Sketchley	21.9	17	1.4	2	0.6	3	0.1	—	—	—	—	—	31.0	21	—	55.0	11
Johnson	6.9	5	3.5	6	1.0	5	—	—	2.8	6	1.1	2	34.9	23	0.3	50.6	10
Pritchard†	15.8	12	7.1	11	1.7	8	1.2	6	3.1	6	1.0	2	0.1	—	1.4	31.4	6
Sunlight	6.4	5	1.0	2	—	—	—	—	11.8	24	6.7	13	0.8	1	0.3	27.0	5
Smarts	1.0	1	4.1	7	1.3	6	—	—	1.1	2	1.7	3	0.4	—	0.1	9.8	2
Sub-total	88.0	69	55.8	90	15.2	76	16.6	83	22.9	46	17.2	34	67.3	45	21.3	304.2	60
Other companies	40.0	31	6.2	10	4.8	24	3.4	17	27.1	54	32.8	66	82.7	55	8.7	205.8	40
Total	128.0	100	62.0	100	20.0	100	20.0	100	50.0	100	50.0	100	150.0	100	30.0	510.0	100

Sources: Association of British Launderers and Cleaners and Rental Services (ABLCRS) and the leading companies.

\* eg of soap dispensers and flat towels. As this represents residual turnover, percentages are not shown.

† Including United Linen and Spring Grove.

2.5. The significant sectors of overlap between Advance and Initial occur in the rental markets for workwear, cabinet towels and dust mats, although both companies operate in most of the other sectors of the textile maintenance market. We describe briefly in the remainder of this chapter the various sectors of the market but concentrate on those where there is significant overlap. We also review the evidence we have obtained on the possibility of the private sector taking over some of the work of servicing NHS linen.

### **Workwear rental**

2.6. The workwear market may be sub-divided into two parts, one dealing with industrial workwear, generally involving heavier garments and more soiling, the other with the lighter, cleaner end of the market. Volume has declined in the industrial sector as a result of recession, and growth in the smaller lighter sector has not fully compensated for this in real terms. The market is thought to have stabilised with continuing decline in industrial uses now being offset by increases at the lighter end of the market.

2.7. Workwear may be cleaned either by laundering or dry cleaning. With the trend towards lighter mixed fabrics (poly/cottons) and improved laundering techniques there has been a trend towards laundering so that servicing is now thought to be evenly split between washing and dry cleaning. It is widely predicted that the trend towards washing will continue until the vast majority of garments are laundered.

2.8. The two extremes of the workwear rental market also tend to be serviced in different ways. The large industrial contracts tend to be delivered separately and processed in large specialised plants dealing solely with workwear. The smaller contracts covering lighter, cleaner garments are more likely to be collected together with other items and processed in plants laundering a range of products.

2.9. Coupled with the spread of workwear rental into cleaner applications has been an increase in the frequency of washing. The replacement frequency depends on the application but average figures for the United Kingdom of between 1 and 1.5 times a week have been quoted to us. The comparable figures in the USA are said to be between two and three times a week. The industry expects the United Kingdom figures to continue to rise slowly.

2.10. Entry into this market is understood to be easier than into cabinet towel rental although capital costs are equally onerous. There is a more significant element of personal service required which is increasing with the introduction of more highly fashioned garments for the growing numbers of women wearers. The high service content, particularly in the lighter end of the market which is currently growing, requires a strong local presence which enables some smaller localised companies (ie those included under 'other companies' in Table 2.1) to compete. Recognising the importance of a localised service, even some of the bigger national companies have organised their workwear rental operations in relatively small local units. Johnson Group Cleaners PLC (Johnson) told us that its Apparelmaster system was organised in this way with the marketing and brand name the same as

that of Johnson's local dry cleaning shops, eg Bollom or Crockatt. Entry into the market, however, also depends on being able to build up a sufficient density of turnover to make delivery economic.

2.11. Johnson told us there was considerable spare capacity in the industry even where, as is common, the work is done on a single day shift. Initial, Johnson and Spring Grove Services Ltd (Spring Grove) told us there had been a significant fall in demand for workwear rental from the heavy industrial part of the market which formerly accounted for the bulk of demand. It was generally agreed that the lighter commercial end of the market would be growing in the near term and that possibly the decline in the heavy industrial sector had ended. Initial told us that in its view a large increase in volume could occur in the industrial sector as the general improvement in working conditions which Initial foresaw required the provision of workwear more widely and more frequent cleaning.

2.12. Competition in the workwear rental market is reported as being intense and prices have fallen in real terms over the last few years.

### **Cabinet towel rental**

2.13. Cabinet towel rental constitutes one of three main types of hand-drying facilities (the others being paper towels and warm air dryers) provided in washrooms in non-domestic premises. Turnover in cabinet towel rental in 1983 is estimated at £62 million. Initial and Advance were the market leaders with shares of 38 and 25 per cent respectively. Next came Spring Grove, a subsidiary of Pritchard Services Group PLC (Pritchard), with 11 per cent, then Johnson with 6 per cent, Sketchley and Sunlight Service Group PLC (Sunlight) 2 per cent each.

2.14. We estimate 1983 turnover in paper towels at about £50 million, of which some 80 per cent is accounted for by the three major producers, Bowater-Scott, British Tissues and Kimberly-Clark. Advance had a turnover of £0.3 million in this market, Initial none. Estimates given to us of turnover in warm air dryers vary between £10 million (by the British Warm Air Hand Dryers Association and by one of the leading suppliers, Warner Howard) and £18 million (BET). As we have been unable to obtain comprehensive independent figures in the time available, we accept these as lower and upper estimates.

2.15. Taking the three major types of hand-drying facilities together, Initial's turnover was £26.2 million and Advance's £15.9 million out of a non-domestic hand-drying market of between £122 million and £130 million. On the lower estimate, Initial's share in 1983 was 21 per cent and Advance's 13 per cent. On the higher estimate these shares become 19 and 12 per cent respectively.

2.16. The capital intensity of the laundering operations for cabinet towels varies widely. One company, Spring Grove, uses very large processing machines, and offers a nation-wide service by trunking<sup>1</sup> from collecting areas to one of five locations. At the other end of the spectrum it is possible to purchase a relatively small conventional laundering machine for around

<sup>1</sup> The transport of bulk loads between distribution depots or branches and processing plants.

£30,000. A new entrant to cabinet towel rental would need to incur costs other than laundering capacity. Dispensers cost around £26 to £30 and towels £9 to £10 each, and expenditure would also be required on transport and marketing. Prices are reported to be lower now than in 1982, and we were told that a typical contract for about six to eight towels would be priced at 80p to £1 a towel per week. In view of the low ratio of revenue to start-up costs, a new entrant would need to have adequate resources to meet the cost of establishing itself in this sector, including losses on operation until the company reached break-even point.

2.17. Suppliers can benefit from economies of scale by making the most efficient use of their transport systems, and a high level of calling density greatly reduces unit costs. For this reason suppliers benefit from offering a package of other textile maintenance services (such as workwear or dust mats) with cabinet towels. In marketing terms it may also help to be able to offer other services such as office cleaning as part of a package.

### Costs

2.18. The cost per dry of cabinet towels remains constant as more are used, whereas with warm air dryers and paper towels greater frequency of use brings down the cost.

TABLE 2.2 Average cost of hand-drying per user per day

Number of users per day	<i>pence</i>			
	30	50	100	200
Cabinet towels	.55	.55	.55	.55
Paper towels	.78	.65	.49	.39
Warm air dryers:				
Purchased	.72	.45	.25	.15
Leased	1.20	.74	.40	.22

Source: A study by the North Eastern Universities O & M Unit Report 181. Methods of hand drying in Universities. January 1984.

These figures suggest that cabinet towels are the cheapest option at low levels of use (40 or fewer users per day) but that purchased warm air dryers are cheapest at higher levels of use.

### The choice of hand-drying facilities

2.19. Various factors in addition to cost influence the choice of hand-drying facilities. Warm air dryers are easy to maintain but difficult to vandalise and tend to be preferred in locations where there is little supervision, such as pubs or motorway service stations. Where hygiene is of paramount importance, as in hospitals or food processing areas, paper towels are normally preferred, as paper is believed to be the most hygienic of the three main methods provided that the towels are promptly and efficiently disposed of.

2.20. Cabinet towels are regarded by many people as the smartest of the three main methods and for this reason are often chosen for hotels and office blocks. They are quicker to use than warm air dryers and so tend to be preferred for locations where many people want to dry their hands in a short period of time. Where demand is bunched and hands are very dirty, as in factories when the workers come off shift, paper towels are regarded as the most suitable method.

### Substitution between different methods

2.21. We estimate that in the United Kingdom cabinet towels account for a little over half the hand-drying market, followed by paper towels (41 per cent) and warm air dryers (8 per cent). According to another recent report<sup>1</sup> the dominant medium in the USA is paper towels, which account for 78 per cent of the hand-drying market, followed by warm air dryers with 13 per cent and cloth towels with 9 per cent, but paper is relatively cheaper in the USA.

2.22. In the United Kingdom warm air dryers are seen as a growth area. All the major towel rental suppliers offer their customers warm air dryers on request, but only one supplier offers paper towels as an alternative to cabinet towel rental. Customers incur few cost penalties in switching between methods, but other factors (see paragraphs 2.19 and 2.20) may make them slow to switch in response to small changes in relative costs.

2.23. BET let us have the results of an evaluation of the 'non-domestic market for hand-drying facilities' (see paragraph 6.16). In this survey, those respondents who had not changed supplier in the previous two years were asked whether they would consider changing supplier for various levels of price reduction. Thirty-six per cent of these respondents said that they would consider changing supplier for a price reduction of around 1 to 5 per cent, and a total of 62 per cent said that they would consider changing supplier for a price reduction of 50 per cent or more. This implies that a substantial number of cabinet towel rental customers would not consider changing supplier even for a price reduction of over 50 per cent. Respondents were not asked whether they would consider a change in method of hand-drying facility for different levels of price reduction.

### Dust mat rental

2.24. Dust mat rental is an expanding sector of textile maintenance. Turn-over in dust mat rental of the seven leading textile maintenance companies grew by 12 per cent between 1981 and 1983. The relative shares of the seven companies, believed to account for about three-quarters of the total market, were as follows:

TABLE 2.3 Dust mat rental market—principal shares

	1981		1983		Growth 1981-83*
	£m	%	£m	%	%
Initial	7.6	57	7.8	52	+ 2
Advance	2.2	17	2.7	18	+21
Sub-total*	9.9	74	10.5	71	+ 7
Smarts	1.4	10	1.3	9	- 3
Spring Grove†	1.1	8	1.4	10	+36
Johnson	0.6	5	1.0	7	+59
Sketchley	0.4	3	0.6	4	+69
Sunlight	—	—	—	—	na
Total*	13.3	100	14.9	100	+12

Source: MMC study.

\* Sub-totals, totals and percentages are derived from unrounded figures.

† Now part of Pritchards. Pritchards also includes United Linen which had a recorded turnover in dust mat rental of £0.3 million in 1983, but for which separate figures were not obtained in respect of 1981.

<sup>1</sup> Washroom Drying Services. Department of Textiles, UMIST October 1983.

2.25. Dust mats for industrial or commercial premises are rubber-backed mats of cotton or nylon, specially designed to trap dirt and soil. Mats are collected regularly for laundering, usually once a week, and are impregnated during processing with a special compound which helps to absorb dirt. Typical sizes are 6ft by 4ft or 8ft by 6ft. There are two types of mats, plain heavy duty cotton mats and the smarter, light duty mats known as 'decor' or 'appearance' mats which may incorporate users' logos or other distinctive markings and which are, for example, used in company reception areas. Decor mats probably account for about 15 to 20 per cent of the market at present, but the share is growing. While most textile markets are thought to be mature, that for dust mats is generally considered to have considerable potential growth as users become more aware of the advantages of dust mats for shops, offices and factories. The value of the market is estimated to be some £20 million in 1983.

2.26. As mats are typically required only for entrances to offices or works, each customer will usually want only a small number of mats, and possibly only one. This makes unit distribution costs relatively high unless the supplier is supplying a number of customers in a limited area or is offering dust mats as part of a package deal including, for example, workwear and/or cabinet towels.

2.27. The heavy duty mats have traditionally been washed on a 'flat bed' machine, but this is not suitable for the decor mats, as the colours need to be brought out. Spring Grove told us that it laundered both types of mat in 'wash wheels' which were somewhat more expensive. Another rental contractor told us that dust mats had a higher cost per unit of sale than any other textile rental sector. Not only were distribution costs higher; processing costs also were likely to be increased by the fact that the nature of the product made it impracticable for it to be processed in the same equipment as linen.

2.28. Initial told us that dust mat rental was offered not only by the national operators but also by a substantial number of small local companies. Sketchley commented that it was expensive to make an investment in dust mats, and that it was not something that many small companies would undertake. Sketchley also stated that it was easier to enter dust mat rental if it were being offered together with other textile maintenance services.

### **Industrial wiping cloths**

2.29. The major part of industrial wiping cloth rental is the provision of specially designed wiping cloths for dealing with toxic products such as printing inks. Wiping cloth rental is a specialist activity, entailing investment in dedicated processing and effluent treatment plants and in transport and distribution arrangements. Initial is by far the largest supplier. Spring Grove told us that it had found wiping cloths a hazardous product to deal with and had in consequence sold its printers' ink wiper business to Sketchley. In addition to wiping cloths for toxic products there is also a small volume of wiping cloth rental for non-toxic products, a less specialised market in which paper wipers are the main competitive product.

## Linen hire

2.30. Industry estimates suggest this sector of the market expanded both in value and volume terms between 1981 and 1983. The increase stemmed mainly from the rising levels of occupancy achieved since 1981 in hotels throughout the country but most particularly in London. The market shares of the larger companies are not thought to have changed markedly even after the switching of some contracts between firms and the acquisition of the St Georges linen rental business by Sunlight. The significant increase in demand has been met without any major increases in capacity, partly by taking up spare capacity in the London area and partly from increased trunking. Both Advance's and Initial's turnovers in this sector in 1983 were slightly lower than in 1981 and their market shares, which together amounted to between 7 and 8 per cent in 1983, were also slightly lower.

## Laundry

2.31. Estimates by companies in the market suggest that since 1981 turnover by value has remained static or fallen, possibly by 10 per cent. After allowing for inflation, this would suggest a reduction in volume of 15 to 25 per cent. The turnover of the larger companies appears to have remained virtually static in this sector. The market shares of Advance and Initial are very small and about 70 per cent of the market is served by smaller companies.

## Dry cleaning

2.32. Industry estimates suggest that since 1981 this market—predominantly the dry cleaning of domestic work in shops or small units—has expanded both in terms of turnover and volume. Neither Advance nor Initial has a major interest in this sector.

## National Health Service contracts

2.33. Expenditure on laundry and linen services by the National Health Service (NHS) has been as shown in Table 2.3.

TABLE 2.3 NHS expenditure on laundry and linen services (out-turn prices)

	1979-80	1980-81	1981-82	1982-83	1983-84
Laundry	52	60	66	66	66
Linen services	85	98	105	109	109

Source: DHSS.

### Notes:

1. 'Laundry' covers the production cost of laundering (ie washing) bedding and clothing, both workwear and patients' personal wear. It includes a small amount of dry cleaning (costing about £3 million).

2. 'Linen services' covers the buying of sheets, pillows, nurses' uniforms (10 sets per nurse), and other workwear, their storage, issue, repair and replacement.

2.34. The private sector has been doing laundry work for NHS hospitals for several years. Expenditure by the NHS on private sector laundry services and the percentage of total NHS laundry expenditure which it represents is shown in Table 2.4.

**TABLE 2.4 NHS expenditure on private sector laundry services**

	1979-80	1980-81	1981-82	1982-83	1983-84
Value £m (out-turn prices)	7.3	7.2	7.7	7.5	6.4
Percentage of total NHS expenditure on laundry services	14.1	12.0	11.8	11.4	9.7

Source: DHSS.

A regional analysis of laundry work in England shows the percentage put out to the private sector in 1982-83 ranging from 0.6 per cent in East Anglia to 20.9 per cent in the Oxford region. The northern regions (down to and including the West Midlands and East Anglia) show lower percentages (averaging 5.9 per cent) of laundry work contracted out than the southern regions (averaging 16.8 per cent).

2.35. In September 1983 District Health Authorities (DHAs) were instructed to put laundering services (but not linen services) out to competitive tender by September 1986 and those proposing to invest more than £0.5 million on in-house facilities have been required to seek competitive tenders before proceeding. Several contracts have been awarded to private sector laundries following the closure of a large NHS laundry at Carshalton and the decision not to spend some £2 million to replace an old NHS laundry in Halifax. Initial advised us of 13 contracts which had been awarded to the private sector by DHAs in England (and one in Wales) since the instruction to obtain outside tenders. The total value of these contracts was about £1.6 million a year of which contracts worth about £0.6 million had been awarded to Initial and about £0.5 million to Advance. Some authorities have put services out to tender but decided in favour of 'in-house' services; they include North-West Herts (in respect of mental health hospitals only), Southend (all hospitals) and Wakefield. The Paddington and North Kensington Health Authority has awarded its contract to another health authority laundry (Ealing) as a result of competitive tendering.

2.36. DHSS said it was too early to say how keen the competition would be for NHS work. Five large companies (Advance, Initial, Sunlight, Brooks and Smarts) were thought to be able to offer almost national coverage and there were some large regional organisations, such as the various co-operative societies and Pennine laundries, as well as up to 200 smaller local concerns which could take on NHS work. Most of them would need to install special barrier equipment for dealing with foul and infected laundry and this could cost them a minimum of £50,000. DHSS has suggested to health authorities that contracts should be for three to five years and they told us that it was not clear how much capital investment companies were prepared to make on this basis.

2.37. DHSS suggested that commercial laundries might eventually obtain about 25 per cent of NHS business; Advance estimated 25 to 30 per cent. Some NHS laundries are large, modern and efficient and those with spare capacity will be able to tender for work from other districts. DHSS expect there to be an increase in the throughput of the more efficient NHS laundries, while the smaller and less efficient may close down. DHSS believe that dedicated laundries, such as BET says the proposed merger would make possible, should be able to offer a keenly priced and appropriate service for the NHS.

2.38. The number of NHS laundries in England has fallen from 1,200 in 1948 to 300 now (serving 2,000 hospitals). In the last two years, with increases in efficiency, NHS laundry costs have risen at about half the rate of inflation.

2.39. BET told us that the additional contracts so far awarded to the private sector have largely been satisfied by using existing spare capacity and priced below the levels needed to cover full allocated costs. In view of the need to treat hospital linen, which is likely to include foul and infected laundry, separately from other laundry and the requirement for a rapid turn-round—hospitals typically specify a 48-hour (or even shorter) service—BET suggested that NHS work could most effectively be handled by relatively small dedicated plants close to the hospital(s) to be served, as instanced by Advance's plant in Norwood serving the Carshalton hospital.

2.40. We contacted three of the DHAs which had let contracts with the private sector as a result of the 1983 instruction to seek competitive tenders. Two of the contracts had been sought as a result of the closure in early 1984 of the large NHS Carshalton laundry which had never obtained enough work to run economically. Some problems had arisen with each of these contracts. These involved mainly quality of wash and delivery times but they were thought to be amenable to tighter monitoring of quality or tighter contract terms.

2.41. Individual local laundries were thought to be quite capable of meeting hospital laundry requirements—provided they had installed the necessary barrier equipment—and examples were given of such laundries which had been doing hospital work for many years. The need for proximity to the hospital was emphasised in order to keep down both the costs of daily deliveries and turn-round times. The need to invest in extra stocks, because of longer turn-round times, was quoted in one instance as having reduced the price advantage of contracting out.

2.42. So far 'linen services' have been undertaken entirely in-house. No workwear or linen has been rented, although a DHSS circular in September 1983 pointed out to DHAs that linen rental was an option, and guidance and specimen tender and contract documents were sent to them in October 1984. We were given no indication of what proportion of the £109 million cost of 'linen services' might go to the private sector. The DHAs were expected to be cautious about any switch to rental, whether for linen or workwear, but we were told that the possibility of extending the private sector's activities to replacing worn out or damaged linen, or even to a full rental service in certain areas, might prove attractive to the NHS in the future.