

CHAPTER 7

The views of other parties

7.1. In addition to our general advertisements inviting comments (see paragraph 1.3) we sought the views of the Department of Health and Social Security (DHSS), the Department of Trade and Industry (DTI), the Property Services Agency (PSA) and the Department of Employment (D of E). We also approached the Trades Union Congress (TUC) and the Confederation of British Industry (CBI), 6 trade associations, 13 suppliers, 53 customers and 25 competitors. We summarise below the replies of those organisations which offered views on the merger. The others did not reply, made no comments or said they wished to remain neutral.

Government departments

7.2. DHSS adopted a broadly neutral attitude to the merger when it was considered by the Office of Fair Trading. It would eliminate one tenderer for NHS work but might result in lower prices by reducing costs. DHSS did not express any strong views to us either way, but gave us much useful information about the potential NHS market. (See also Chapter 2.) PSA and the sponsoring division of DTI made no comments on the merits of the proposed merger but the former explained its position as a customer in the cabinet towel market which is dealt with in Chapter 2. D of E observed that BET had said that the merger would involve a modest number of redundancies as a result of management rationalisation but no loss of employment among the rest of the combined workforce. BET in fact envisaged enhanced employment prospects for the workforce. Provided that there were no more significant employment implications, D of E expressed no concern.

The Trades Union Congress

7.3. The Trades Union Congress sent us written comments from the Union of Shop, Distributive and Allied Workers (USDAW) whose major concern was to protect the jobs of its members in the laundry industry and to maintain and improve working conditions and rates of pay. USDAW wished us to consider what effects the merger and possible rationalisation would have on jobs and to what extent employees might benefit from it.

7.4. A hearing was held at which representatives of USDAW and of the Transport and General Workers Union (TGWU) were present accompanied by the TUC. Both unions emphasised that they were seeking assurances on wages, job security and conditions of employment for those in the industry, whether members of unions or not. They also expressed concern that the merged group would have large shares in a number of very important areas of the laundry and retail market. It was the unions' view that, because of the possibility of the abolition of the Laundry Wages Council, conditions of employment could be at risk. Some negotiations on standards and conditions of employment were made outside the terms of the

Wages Councils but not all of these were satisfactory to the unions. The unions were neither for nor against the merger. They were stating a case for protecting the employees of the industry and their view of the merger depended on its effects on numbers employed, pay and conditions of employment. If there were to be any loss of jobs they would be against it.

Trade associations

7.5. The CBI did not wish to give any view. The British Clothing Industry Association Ltd representing clothing manufacturers was unhappy at the proposed merger and would have some concern if it went ahead.

Suppliers

7.6. Six suppliers responded, one of which did not wish to comment and four were not against the merger. A major oil company concluded that the merger would not have a substantial effect on its business and that there was a significant amount of natural competition in the areas in which Advance and Initial operate. A leading manufacturer of detergents considered that the merger would concentrate about one-third of commercial laundry capacity, and therefore might exert pressures on suppliers through the significantly increased financial 'muscle' of the enlarged group. It did not wish to oppose the merger if it were held to be in the interests of the industry and of the economy of the United Kingdom.

7.7. The one objector, a clothing manufacturer, thought that BET already effectively controlled Initial, but was concerned that the merger would result in substantial integration of Advance and Initial. It considered that this could have a detrimental effect on the supply industry and operate against the public interest, in that the joint forces of Initial and Advance could restrict competition in the clothing supply market and, by their substantial influence on suppliers, delay the introduction of competitive products. It believed the merger should be prevented unless BET agreed to divest itself of Advance.

Customers

7.8. Only four customers made comments and three of them were not against the merger. One of these said that it saw no shortage of reputable companies offering service, albeit on a local basis, if not through national operations. It believed adequate competition would remain available to ensure that sensible prices were quoted and that standards of quality and service did not deteriorate.

7.9. Opposing the merger, one major customer considered that the effect of removing a major competitor in this field might ultimately reduce the competitiveness of the textile maintenance market in general, and of Initial in particular. It also considered it possible that the merger would produce an integrated group of such a size that it could dominate the market and that the ultimate effects could be more far reaching. On the other hand it felt that other companies in the 'services' sector would quickly be drawn into the market if price levels became excessively profitable.

7.10. A company supplying cleaning rags to industry was worried that the merger might affect its purchases of discarded cabinet towelling from Advance.

Competitors

7.11. Eight competitors responded to our inquiry; one had no comments, one was not against, one had mixed views and five were against the merger.

7.12. Pritchard considered that the textile rental market was, and had always been, highly competitive. It estimated that approximately 75 separate organisations contended for work in the sector, a few nationally, but most on a regional or local basis, and its experience suggested that smaller local undertakings were as likely to win a contract from a national major as the converse. In its opinion competition would not be reduced by BET ownership of both Initial and Advance, whether separately or as a merged entity. Spring Grove, a subsidiary of Pritchard, thought that, in the short term, there would be market opportunities for Initial's and Advance's competitors as BET struggled to integrate the two companies. In the longer run the success of the merged group would depend on the quality of its management. Spring Grove said that in a service industry such as textile maintenance centralisation could go too far. A point could be reached where trunking costs became the major cost factor and a company became distribution-heavy. Complaints of poor service at local level could provide opportunities for locally-based competitors to pull back market share by offering a better service, even if at slightly higher cost. It believed that cabinet towels were in competition with warm air dryers and paper towels. It said it would be fairly difficult to move from small-scale to large-scale cabinet towel rental operations, given the highly competitive conditions.

7.13. Another competitor was not happy that so much of the textile rental industry should be dominated by one company, but doubted whether the transfer to BET of the balance of the Initial shareholding would make any significant difference. It believed that the proposed merger would be no more against the public interest than Initial's size already was. It suggested, however, that BET should not be allowed to further increase its market share in this country, particularly in relation to the continuous towel and workwear fields in which its position was already so dominant.

7.14. Johnson opposed the proposed merger on the grounds that it would be against the public interest and harmful to competition within the industry. It felt that cabinet towels should be considered in the context of a total hand-drying market including other drying methods which had offered strong competition in recent years. The most serious reduction in competition resulting from the merger would be in the workwear and cabinet towel sectors of the textile rental market where entry was most difficult. In these sectors it was necessary to obtain a significant market share before the scale of operations was large enough to yield an acceptable return on capital employed. It told us that minimum investment in stocks would be of the order of £1 million for the cabinet towel sector. As the overall market was not expanding, entry would most likely have to be by acquisition, but the number of good quality companies of sufficient size was falling.

7.15. Johnson believed that the merger would represent a significant step towards creating a monopoly in the industry, and was worried that there might be other shareholdings within the industry which would give BET the potential for further market share expansion by acquisition. Johnson was firmly of the opinion (as it believed others in the industry also were) that under BET's guidance Advance and Initial had acted in unison for many years past, even while trying to present the appearance of not doing so. It expressed the view that BET companies had consistently used their strong market position in a manner calculated to promote restraints on free competition.

7.16. Johnson thought there might be considerable volume potential in NHS laundry work but believed that the risks were unacceptably high; the supplier was extremely vulnerable when the contract came up for renewal. It would, however, be interested in extending its workwear rental business with the NHS.

7.17. Sketchley, at an oral hearing and in a written submission, expressed the view that the proposed merger would be against the public interest, since such competition as the Commission had found to exist in 1983 between Advance and Initial would come to an end or be seriously reduced. Consequently the normal pattern and structure of competition in the industry would necessarily be distorted. In particular Sketchley considered it probable that an extensive rationalisation of the two operations would be undertaken by BET. Such a rationalisation would adversely affect the consumer in that:

- (a) It would eliminate Initial's major competitor in cabinet towels, dust mats and ancillary rental, Advance being the second biggest supplier in the market and the only credible national competitor in these products.
- (b) It would give Initial/Advance an overwhelmingly strong position in the one market segment with any scope for growth (ie workwear rental for small businesses) in the present economic climate.
- (c) It would also contribute towards the trend for less choice as Initial/Advance would be in a position to take over or eliminate more small local laundries (which dropped from 1,000 in 1971 to 450 in 1979 and 350 at the end of 1983) in order to get their workwear/linen business.
- (d) The dominance of Initial/Advance in cabinet towels and dust mats (which was the backbone of small-client business) would inhibit new entrants and so strengthen the merged group's monopoly position.
- (e) It would have a detrimental effect on potential competition in the workwear rental market and would lead to the industry becoming more concentrated than it otherwise would be.

7.18. Sketchley argued that the proposed merger would have little or no effect on the wholesale or large customer segment of the market where its share matched Initial's. It considered that the retail or small customer rental side of the workwear business should be looked at in conjunction with cabinet towel rental and dust mat rental because of the following considerations:

- (a) the cost of collection and delivery of garments or other goods was crucial to the economics of the business; full lorry or van loads needed

to be organised for collection/delivery within a limited geographical area if the business was to be profitable;

- (b) the main potential for growth was in the provision of rental services to smaller businesses; and
- (c) these smaller businesses would require, either individually, or collectively within a limited area, the three rental services.

Sketchley believed it was inevitable that the merged companies would become increasingly dominant in the retail workwear, cabinet towel and dust mat rental markets combined. For new entrants provision of these services to small businesses in the face of a dominant low cost competitor would be highly unattractive.

7.19. Thus Sketchley saw cabinet towels as part of a rental package which included workwear and dust mats, and perhaps some other textile items, rather than as part of a hand-drying market. The cabinet towel segment of the rental market was in Sketchley's view pretty static. On the matter of brand competition between Advance and Initial, it said it was difficult to differentiate between brands of continuous roller towels. The availability of an Initial towel and an Advance towel did not fundamentally affect customer choice. It also contended that it was easier to enter the dust mat rental market if it was being added to other textile rental services; it was not something which many small companies would undertake. It told us that the merged group's strength in cabinet towels and dust mats could be expected to make it increasingly dominant in all three services.

7.20. Sketchley mentioned assurances, given in the past, that Advance and Initial operated separately and were in competition with each other. Sketchley felt that if both became subsidiaries of BET effective competition between the two companies would cease or at least be substantially diminished. It concluded that if BET were allowed to acquire 100 per cent of Initial it would not merely have the power to influence the decisions of Initial (which it arguably had already) but an ultimate obligation to control the policies of that company. Free of the constraints imposed by a majority outside shareholding in Initial, the Board of BET would be duty bound to ensure as far as possible that the products of Advance and Initial did not come into damaging conflict with each other and a state of competition between Advance and Initial would cease to be credible.

7.21. Sketchley indicated that at present it was not expecting to grow in the NHS laundry business. It did not believe that the prevailing prices would enable it, as an outsider needing to invest in further plant, to get a reasonable return.

7.22. A major textile rental company said that despite considering that BET already had the ability to co-ordinate the activities of Initial and Advance, it still saw the proposed merger as having detrimental consequences. Its two principal objections concerned the adverse consequences for competition which would arise from an integration of the two businesses, and the fact that a merger would result in reduced competition between the companies themselves. The company considered that immediate cost savings would result from merging the Advance and Initial head offices and from reallocation of work amongst laundries of the combined group. Consequently the group would achieve considerable and lasting cost benefits

resulting in its having a cost structure which no other firm within the market could match. The company added that:

with such large market shares there would be no reason to believe that the benefits of this lower cost structure would be passed on to consumers except perhaps in areas where local competition was severe and then only for so long as the competition remained effective.

This company believed that the capital-intensive nature of the cabinet towels and dust mats sectors would enable Initial and Advance as a single integrated operation to assume an increasingly dominant rôle and reduce opportunities for entry into the market. It considered this factor to be the more serious since it believed that the extent to which other forms of hand-drying equipment competed with cabinet towels was quite limited. There was clearly a core of customers who for reasons of convenience preferred cabinet towels. Moreover a dominant market share in cabinet towel and dust mat rental as well as industrial wipers would help the merged group to increase its shares of other textile markets such as linen rental.

7.23. The company also said that one factor which must help to maintain competition between Initial and Advance was the fact that any agreement or arrangement between Initial and Advance, with or without BET, would require registration under the Restrictive Trade Practices Act 1976 if relevant restrictions were accepted by Advance or BET on the one hand and by Initial on the other. This would cease to be the case if Initial became a subsidiary of BET. It also considered that BET's ability to manage the affairs of Initial in the best interests of BET was limited by the need to take into account the interests of the other shareholders in Initial, and this helped to limit the extent to which the businesses of Advance and Initial could be co-ordinated. The merger would remove this limitation.

7.24. It pointed to the difficulty of building up a competitive customer distribution system in the face of large market shares and told us of a company that had been trying to get into dust mat rental for six years but had been unable to build up an economical workload. It could see 'no possible objection to BET's proposed acquisition of Initial provided that BET divests itself of Advance'.

7.25. This company believed that the market for NHS laundry work was unattractive.

7.26. Micronclean Ltd was against the merger believing it would result in reduced competition in the market, and that any constraint on BET to operate Initial and Advance as separate companies would be removed, with consequential rationalisation and a reduction in external sources of supply. It added that if BET wished to own all of Initial, then perhaps the public interest would be best served by BET divesting itself of Advance.

7.27. H Tomlins Ltd considered that the merger would be unhealthy for the industry, particularly because in recent years there had been a dramatic reduction in the number of companies operating in the market; from the point of view of prices, choice of services etc it was important that enough companies remained to provide healthy competition. If the merger was approved it considered that Advance Laundries should be excluded from the new merged group.