3 The market for gas fires

Introduction

3.1. Both Yale & Valor and Myson manufacture gas fires and the proposed merger would thus lead to increased concentration in the market for gas fires. In this chapter we examine the market and the state of competition in it.

3.2. As part of our examination of the market we obtained written and oral evidence from Yale & Valor and Myson and the other main manufacturers in the market. Gas fires are bought from the manufacturers and retailed to the public predominantly by British Gas plc (British Gas), but also through various do-it-yourself (DIY) stores and retail shops. Some are purchased by various builders' and plumbers' merchants for sale to installers. We obtained written and oral evidence from British Gas and conducted a survey of other distributors and retailers. Evidence from these different sources is used throughout this chapter. The views of the main parties are given in Chapter 4 and the views of other parties are set out in Chapter 5.

3.3. The survey of distributors and retailers related both to this inquiry and the inquiry into Blue Circle Industries plc's (BCI) bid for Myson, where the market affected is in gas boilers. Since some distributors purchase a range of items including gas fires and boilers this joint survey was considered the most efficient approach to adopt.

3.4. Customer lists provided by Yale & Valor, Myson, Potterton (BCI) and several other major manufacturers were used for the survey. A questionnaire was drawn up and sent to customers accounting for 99 per cent of Yale & Valor, Myson and Potterton sales of gas fires or boilers (or both in the case of Myson) as well as to major customers on the lists provided by other suppliers (many large customers appeared on all the manufacturers' lists). Of the 125 copies of the questionnaire which we sent out, 43 were returned wholly or partially completed, 27 were nil returns (because firms had closed down, moved or were unable to provide the information requested) and the remainder elicited no response. Measured in terms of the total United Kingdom market for gas fires in 1988, the coverage of the survey was high at 70 to 80 per cent (depending on the way in which the total market was defined). British Gas alone accounted for a very high proportion of gas fires (see paragraph 3.28). A summary of the survey results relating to gas fires is given in Appendix 3.

The products and the market

3.5. The market for gas fires can be defined in various ways. In the widest definition, the gas fire can be considered as part of a market for domestic heating which encompasses all types of fuel and all methods of heating. Thus fires, heaters and central heating systems fuelled by gas, liquid petroleum gas (LPG), paraffin, electricity, oil and solid fuel would all be considered as part of the market. Clearly, however, different fuels and heating systems have different consumer characteristics which, for the consumer, make them less than perfect substitutes for each other. Our approach to delimitating the market is to evolve a definition which brings together products which are fairly close substitutes from the consumers' point of view; then to examine how other, less close, substitutes affect the sales of these products. As a result, we begin with a discussion of the market for gas-fuelled heaters, comprising various types of gas fire and gas wall heater.

3.6. The traditional gas fire, fuelled either by natural or manufactured gas distributed through the British Gas mains, produces a combination of radiant and convected heat and typically has a fuel efficiency of about 60 per cent. The typical price would be in the £60 to £90 range (all prices quoted are manufacturers' prices to distributors). Over the past ten years the appearance of gas fires has changed with more emphasis being given to simulating the appearance of burning logs or coals. Greater visual realism usually imposes a cost in terms of fuel efficiency. Fires with flame effects but with efficiency of about 40 per cent or more are referred to as live fuel effect (LFE) gas fires. Their prices range from around £100 to £300 or even more depending on the quality of decorative finish. The most visually realistic gas fires, some of which have artificial coals or logs set in an open basket, have a fuel efficiency of less than 20 per cent. These are referred to as decorative fuel effect (DFE) gas fires. Their prices are usually in a similar range to those of LFE fires but there are some bespoke DFE and LFE fires which can cost considerably more than the prices quoted. Both Myson and Yale & Valor make gas fires of the traditional type and LFE fires. Neither have been active in the DFE market although both intend to become so.

3.7. Gas wall heaters, which provide gas-fuelled convected heat but not radiant heat, look like a metal box and are free standing or hung on a wall. They are more fuel-efficient than conventional gas fires and their prices range between about £70 and £200. They do not, however, serve as a focal point in a room nor do they have much decorative appeal, characteristics which are of importance to many consumers as demonstrated by the growth in sales of LFE and DFE fires. Many consumers would not, therefore, consider a gas wall heater as an alternative when choosing a gas fire. But for some customers who are considering whether to buy a cheaper, more basic gas fire, a wall heater is likely to be regarded as a closer alternative than a more expensive and less efficient DFE. Wall heaters are therefore included in the market estimates in Tables 3.1 and 3.2. Yale & Valor, but not Myson, manufactures gas wall heaters.

3.8. Some gas fires are sold as part of a back-boiler central heating system. This system has a water boiler, installed in a conventional chimney flue, attached to the back of a gas fire. The system therefore combines the water-heating function of a central heating system with the heating effect and visual features of a gas fire. We received conflicting opinions as to whether these fires should be considered as part of the gas heater market. The gas fires for back-boiler systems are almost identical in appearance to ordinary gas fires. Manufacturers of fires for back-boilers informed us that these fires differ from ordinary fires only in minor internal details. Moreover, the decision to buy a back-boiler system (in the words of one witness) `fills a fireplace', ruling out the possibility of the purchase of an ordinary gas fire.

3.9. Consumers, however, are likely to view the purchase of a central heating system differently from that of a gas fire; such a purchase is financially a much bigger decision than buying a single gas fire. It seems likely that consumers first choose between central heating and focal-point heating and then decide on the type of central heating. The back-boiler fire is then no more a substitute for an ordinary gas fire than other forms of central heating. In addition, many purchasers of DFE and LFE gas fires already have central heating, so that a back-boiler system is of no interest to them.

3.10. We have decided to exclude back-boiler fires from our calculation of market shares in Table 3.2 (though we consider the effect of including them in the total market in paragraph 3.14). It is clear, however, that for manufacturers of gas fires there are negligible technical barriers to switching from manufacture of ordinary gas fires to gas fires for back-boiler systems or vice versa. This point is pursued further in the discussion of barriers to entry (paragraphs 3.34 to 3.36).

The supply of gas fires

Total sales in the United Kingdom

3.11. Table 3.1 shows the sales of gas fires and wall heaters in the United Kingdom for the years 1984 to 1988.

TABLE 3.1 **United Kingdom sales of gas fires* and wall heaters**

					'000 units
	1984	*1985*	*1986*	*1987*	*1988*
Gas fires	652	708	716	779	753
Wall heaters	160	170	170	160	140
Total	812	878	886	939	893

Source: MMC from company data.

*Excluding fires for back-boilers.

The value of sales in 1988 is estimated at about £90 million for gas fires (excluding fires for back-boilers) and about £10 million for gas wall heaters (data for earlier years were not available). There is a market for second-hand fires, estimated at 70,000 to 100,000 units in 1988. Sales of fires for back-boilers amounted to about 190,000 units in 1988, as compared with about 150,000 units in 1984.

3.12. From 1984 to 1988 sales of gas fires have been stable, while those of gas wall heaters have suffered a decline in the last two years. Future sales are forecast to remain broadly static in volume terms but to increase by 2 to 3 per cent per annum in value terms as consumers purchase more expensive fires. Over the last five years, LFE and DFE fires have been achieving higher sales at the expense of cheaper traditional gas fires. Sales of DFE fires were about 150,000 units in 1988.

3.13. One industry estimate suggests that around 80 per cent of gas fire purchases are replacement purchases. Of this 80 per cent, 55 per cent replace existing gas fires, 20 per cent replace solid fuel fires and 5 per cent replace electric fires. About 20 per cent of gas fire purchases are new purchases (ie not replacing other fires). For gas wall heaters about 80 per cent of purchases are new, and about 20 per cent are replacements.

Market shares

3.14. Market shares by volume of the gas fire and heater market over the years 1984 to 1988 are shown in Table 3.2. The table covers Yale & Valor and Myson, other major United Kingdom manufacturers in aggregate and imports. The market share figures are broad estimates because of variation in some firms' reporting years and the use of estimates for sales of smaller United Kingdom manufacturers and imports. As can be seen, in 1988 Yale & Valor had approximately 25 per cent of the market, while Myson had 10 per cent. Market shares measured by value would be broadly similar. Of approximately 190,000 gas fires sold as part of back-boiler systems, Myson made approximately 23,000, while about 1,600 were made by Yale & Valor. If fires for back-boilers are considered as part of the gas fire and heater market, then the market shares of Yale & Valor and Myson would be 21 per cent and 10 per cent respectively.

TABLE 3.2 **Sales of United Kingdom gas fires by volume**

	1984		*1985*		*1986*		*1987*		*1988*	
	Units	*%*	*Units*	*%*	*Units*	*%*	*Units*	*%*	*Units*	*%*
Yale & Valor	190,000	23	216,000	24	221,000	25	257,000	27	225,000	25
Myson	43,500	18	145,100	17	131,300	15	107,300	12	90,000	10
Combined	333,500	41	361,100	41	352,300	40	364,300	39	315,000	35
Other United Kingdom suppliers (est)	452,500	41	487,000	55	496,000	56	545,000	58	533,000	60
Of which:										
Robinson Willey (Hanson)	[									
Flavel and Kohlangaz (Glynwed)					*Figures omitted.*					
Baxi					*See note on page iv.*					
Cannon (GEC)										
Glow-worm (Hepworth)										]
Imports (est)	26,000	3	30,000	3	38,000	4	30,000	3	45,000	5
Total	812,000		878,000		886,000		939,000		893,000	

Sources: Individual firms for own figures. MMC estimates based on Society of British Gas Industries (SBGI) data for total market for 1984 to 1988, and on Business Monitor for imports.

Notes:

1. Figures include all types of gas fire and wall heater, except for gas fires forming part of a back-boiler central heating unit. Some firms' figures are for financial years.
2. Total United Kingdom market figures are rounded totals.
3. Percentages do not always sum to 100 because of rounding.

Other suppliers

3.15. There are three other suppliers of gas fires in the United KingdomRobinson Willey Ltd (Robinson Willey) (a subsidiary of Hanson Trust plc), Glynwed International plc (Glynwed) (through Flavel Leisure (Flavel) and Kohlangaz Fire Co Ltd (Kohlangaz)) and The Baxi Partnership Ltd (Baxi)whose shares are in the 10 to 15 per cent range. Cannon Industries Ltd (Cannon) (a subsidiary of The GEC plc) has a share just below 10 per cent and Hepworth plc (Hepworth) through its subsidiary Glow-worm Ltd (Glow-worm), has a share of about 3 per cent. Baxi has the major share of the market for back-boiler units, and if fires for back-boilers are considered as part of the gas heater market then Baxi's market share would be similar to Yale & Valor's at about 20 per cent.

3.16. Over the last five years Yale & Valor's share of the market has climbed from 23 per cent in 1984 to 27 per cent in 1987 before falling back to 25 per cent in 1988; a share which made Yale & Valor the clear market leader. Myson's share has moved the other way, declining from 18 per cent in 1984 to 10 per cent in 1988. The other major suppliers have had stable shares, except for Glynwed and Cannon whose shares have increased markedly. The popularity of DFE fires has resulted in the rapid growth in the number of small firms specialising in DFE fires and their manufacture.

3.17. In order to investigate whether Yale & Valor or Myson had particular regional strengths in their sales of gas fires, we obtained an analysis of market shares by region for 1988 from British Gas. Although this does not include DFE fires or wall heaters, and British Gas's purchases do not account for the whole market, we considered this analysis would give some indication of regional market shares. Yale & Valor accounted for about 32 per cent of total national purchases of around 490,000 gas fires by British Gas, whereas Myson accounted for about 15 per cent. The two companies' shares in individual regions varied from their national shares but their respective regional strengths did not reinforce each other significantly. The largest combined share of the two firms' sales to British Gas in any region was just over 50 per cent, compared with the national combined share of 47 per cent of British Gas's total purchases of 490,000 gas fires.

Imports

3.18. Imports do not generally play a significant part in the United Kingdom market. The estimated import numbers given in Table 3.2 refer mainly to gas wall heaters and DFE fires. Few gas fires of the British type are purchased or manufactured in other European countries because of different regulations and habits. However, a Belgian firm, manufacturing a gas fire based on a Scandinavian wood-burning fire, obtained British Gas approval listing and exports small numbers of its fires to the United Kingdom.

Exports

3.19. In a number of overseas countries United Kingdom model fires have to be modified for use with bottled gas. There are also differing technical standards. These reasons limit the scope for exports of gas fires from the United Kingdom. The following estimates for exports of gas fires were provided by Myson:

TABLE 3.3 **Exports of gas fires**

Units

	1986	*1987*	*1988*
To other European Community countries	1,500	4,500	7,000
To rest of world	1,200	3,700	4,500
Total	2,700	8,200	11,500

Source: Myson.

Myson exported a total of 275 fires in 1988. Yale & Valor exported 25,000 units to North America in 1988. These include flueless products which are not permitted under United Kingdom regulations and are not included in Myson's estimates for United Kingdom exports.

Other forms of space heating

3.20. Estimated purchased units of other types of space heating for 1987/88 are given below:

TABLE 3.4 **Sales of United Kingdom space heaters by volume**

	'000 units
Electric fires/heaters	840
LPG fires/heaters	120
Oil/paraffin heaters	20
Solid fuel fires	75
Central heating boilers total	1,379
Of which:	
Gas	965
Electric	294
Oil	37
Solid fuel	81

Source: Myson.

In this period approximately 940,000 gas fires and wall heaters were purchased (fires forming part of a back-boiler central heating unit are included in the above figures under gas central heating).

3.21. We received evidence from manufacturers and merchants about the extent to which the above forms of heating were perceived as substitutes by consumers for gas fires and wall heaters.

One clear trend over the past ten years has been the steady growth of central heating of all types, with gas central heating taking the major share of this market since natural gas became widely available in the mid-1970s and the price of gas became lower than that of other fuels. The dominant share of gas central heating has declined a little in recent years as the marked price advantage of gas has diminished.

3.22. The growth of central heating has been at the expense of focal point fires. Central heating has a number of perceived advantages in terms of convenience and comfort, although it entails a much larger initial expenditure than any form of focal point heating. It is hard to conclude from the evidence, however, that consumers contemplating switching to a central heating system would be affected by small changes in the price of gas fires. Central heating systems exert competitive pressure on gas fires in that they serve to contain the size of the overall gas fire market. It is likely that they increase pressure on gas fire manufacturers to improve the quality of their product and the features of gas fires which central heating does not possess, ie their decorative and focal point qualities. Myson had about 13 per cent of the central heating gas boiler market in 1988. Yale & Valor does not manufacture central heating boilers.

3.23. A number of witnesses told us that electric fires and heaters were very competitive with the lower-priced gas fires. They had the advantages over gas fires of being cheaper to purchase and install and of not needing a flue. In visual appeal, however, all of those we spoke to in the industry said that LFE or DFE gas fires had a clear advantage. There were, on the other hand, electric fires with flame effects which have recently come on to the market which may compete with the visual appeal of LFE and DFE gas fires.

3.24. We heard evidence that competition from electric fires exerts direct pressure on gas fire prices in that British Gas, the main purchaser of gas fires, monitors increases in electric fire prices and attempts to limit increases of gas fire prices accordingly. Other types of heater are seen as much less competitive with gas fires and heaters. Solid fuel fires, which compete favourably on visual appeal and are a focal point, have been in a long decline because of their inconvenience. Oil, paraffin and LPG fires are also considered less convenient than gas fires as well as lacking visual appeal. They are, however, cheap to buy relative to gas fires and do provide competition for cheaper conventional gas fires and wall heaters.

3.25. Yale & Valor sold 76,000 portable bottled gas heaters, 5,000 paraffin heaters and 33,000 electric fan heaters in 1988/89.

The distribution of gas fires

3.26. The majority of purchases of gas fires and wall heaters by the public are made at British Gas showrooms. DFE fires are the exception because British Gas does not retail them, although it intends to do so in the near future. Other outlets are builders' merchants and DIY stores. Builders' merchants usually sell only to installers, so the customer would have to specify the make required to an installer. DIY stores operate more like British Gas showrooms, with display areas and customer advice. DFE fires are sold in DIY stores and also in specialist fireplace centres. Typically, purchase involves advice from retailers about performance of fires and a view of the fires in operation. Showrooms, therefore, need multipoint flues so that fires can be installed.

3.27. The opinion of British Gas and the majority of suppliers, merchants and retailers we asked was that demand for lower-price fires and wall heaters was price sensitive, whereas for LFE and DFE fires, at the higher price end of the market, demand was much less price sensitive and the decorative effect of the fire was a more important factor. The influence of installers' advice, relating mainly to performance and installation, was considered of moderate importance in the purchase of a gas fire. This was in marked contrast to central heating purchases where installers' advice was considered very influential. In addition to sales to consumers there are sales of gas fires to new house builders, often of council properties, referred to as the `contract' trade. Myson estimated that about 100,000 gas fires went to the contract trade in 1988.

British Gas

3.28. In 1988 British Gas purchased in total 486,000 gas fires from manufacturers and 110,000 gas wall heaters. These gas fires included 43,000 sold as part of back-boiler systems but no DFE fires since it was then British Gas policy not to retail DFE fires. Therefore, of the total number of gas fires and heaters other than DFE fires sold by manufacturers in the United Kingdom, which we estimate at about 930,000 units, British Gas purchased 64 per cent. If fires for back-boiler systems are ignored and we consider just gas fires (other than DFE fires) and wall heaters, British Gas's purchases as a proportion of total manufacturers' sales were around 75 per cent. For wall heaters the proportion was about 80 per cent, and for non-DFE gas fires alone, 74 per cent. British Gas told us that 79 per cent of the gas fires (excluding wall heaters) it sold were to the public and 21 per cent to installers. These figures illustrate British Gas's central role in the retailing of gas heaters. Its role is not quite as dominant as it was in 1978/79 when it was estimated that 85 to 90 per cent of all gas fires and heaters were sold through British Gas.

3.29. There are approximately 700 British Gas showrooms. They are usually on high street sites and sell a range of gas appliances in addition to heaters, for example central heating systems, water heaters, showers and cookers. The showrooms are equipped with multipoint flues so that gas fires can be shown in operation, an important factor in customer decision making. All the manufacturers who gave us evidence stressed the importance of British Gas's role in retailing. We outline below various aspects of the purchasing and retailing policy of British Gas.

3.30. British Gas is organised in 12 regions. These regions have independence in purchasing with regard to the suppliers used and prices negotiated. British Gas, however, operates a central approvals procedure to which the regions must conform. Only gas appliances which are on the approved list can be purchased by the regions. The approval process involves gas appliances meeting the British Standards Institute's (BSI) specifications as well as some further British Gas conditions relating to spares availability and quality control. The major suppliers who gave us evidence did not consider the approvals process a barrier to entry in the supply of non-DFE gas fires (see also paragraphs 3.34 to 3.36). British Gas regions normally stock a wide range of all suppliers' products, provided they are approval listed. Any such product not immediately available will be ordered.

3.31. Although British Gas does not negotiate its total purchases of gas fires nationally, the bargaining power of each region is regarded as considerable by suppliers. We were told by some suppliers that it was a factor in the relatively low rates of return achieved in gas fire manufacture. British Gas told us in evidence that the regions also have independence with regard to promotion of products, and to retail pricing of products. They mount promotional campaigns using price discounts and special offers. These promotions usually involve prior discussion with manufacturers who often share the costs of promotion.

3.32. British Gas installs fires bought in its showrooms and undertakes servicing. It also offers advice to manufacturers, when requested, with regard to product design. In view of the dominant position of British Gas in the retailing of gas fires we sought evidence as to whether it would have the incentive to resist price increases from suppliers, given that its retailing power might enable it to pass on prices to consumers. The regions are set profit and turnover targets; they thus have the incentive to buy at minimum cost and to maximise net sales revenue. Moreover, in setting prices to the public it was suggested to us that British Gas was very aware of competition for gas fires and heaters from electrical heaters, which were normally lower in price and did not need special installation. It was furthermore pointed out that British Gas was motivated both by retailing margins and its desire to promote the sale of gas.

Other distributors and retailers

3.33. Other customers for gas fires purchase much smaller numbers than do British Gas. Whereas British Gas purchased about 490,000 gas fires in 1988 the five next largest merchants and retailers purchased around 10,000 to 20,000 units each. Yale & Valor gave us figures for its sales to British Gas by region which showed that ten of British Gas's twelve regions each had greater purchases than any other customer. About 80 per cent of Yale & Valor's sales of gas fires to the United Kingdom market went to British Gas and 13 per cent to the five next biggest customers. Myson also said that about 80 per cent of its United Kingdom sales of gas fires went to British Gas, with 17 per cent going to independent retailers and 3 per cent to builders' merchants. The large merchants and retailers purchase quantities which give them some weight in price negotiations. British Gas has not been a customer for DFE fires in the past but intends to begin listing models for purchase. These fires have so far been sold through other outlets, including specialist fireplace centres.

Barriers to entry

3.34. We have already mentioned the technical standards which heaters must meet to satisfy the BSI standards. Gas fires which do not meet the BSI standards and certain other requirements are not approval listed by British Gas. However, there is no legal requirement that heaters should meet BSI standards, and manufacturers are able to sell non-BSI heaters through other outlets. There are few imports, for reasons discussed in paragraph 3.18, but not because of standards acting as a barrier to entry. A Belgian manufacturer, referred to in paragraph 3.18, has obtained British Gas approval. The European Commission aims to harmonise standards across the Community by 1992. The standards for gas fires are likely to be based on British standards because of the relatively low level of gas fire manufacture elsewhere in the Community.

3.35. There are no great technical complexities involved in gas fire manufacture, nor patents, which might form barriers to entry. Many small firms have been set up in the last few years to manufacture DFE fires. These firms tend to be modest operations, sometimes buying in the core components of fires and making only the outside cases of the fires themselves. We have received estimates that the minimum costs of setting up such an operation would be in the range of £100,000 to £250,000. For a firm to aim for successful manufacture of a conventional or LFE fire and obtain a presence in the market we have received estimates of £500,000 to £1 million although if the firm bought in components this amount could be reduced. British Gas approval listing would be the most cost-effective means of facilitating such new entry. Firms most likely to enter the market at this level would be those having experience of gas combustion products, metal manufacturing and assembly capabilities and a record of previous business with British Gas. Firms already manufacturing back-boiler systems and purchasing the fires for these systems from other manufacturers would possess these characteristics. Boiler or water heater manufacturers would also be well placed to enter the market.

3.36. Most of those giving evidence to the Commission did not consider that there were significant barriers to entry to the market for gas heaters, although some stressed that they considered new entry in the supply of traditional radiant/convector fires was unlikely because it is a declining sector of the market.

Pricing

3.37. Myson told us that it had different base prices for British Gas and for various different categories of independent retailers. Base prices also varied according to the quantities of orders placed, service and display arrangements. Prices paid by British Gas were lower by a few per cent than the lowest prices offered to independent retailers. This reflected the promotional activity of British Gas and its undertaking of all service work on Myson's behalf. Prices to merchants were negotiated individually with discounts for quantities and prompt payment. Yale & Valor said that it had an internal trade price list which served as the basis for its price negotiations. Discounts were negotiated with customers, including the individual British Gas regions, depending on order quantities, special promotions and particular customer requirements.

Assessment of competition in the market

3.38. We invited comments from all the main United Kingdom suppliers of gas fires. Without exception they were of the opinion that the market was very competitive. Many suppliers, including Yale & Valor and Myson, gave a similar picture of the working of the market. They said it had been driven by innovation in product design, mainly related to fire appearance. Over the past ten years different firms had come up with innovations such as the LFE fire and then the DFE fire, or very popular designs, which had given them an increased market share for a time. This had been followed by imitation of the product by other firms, or variation on the theme. Alongside such competition the purchasing power of British Gas, and its awareness of the competitiveness of heaters using other fuels (especially vis-à-vis lower-priced traditional gas fires), had served to keep prices down.

3.39. Our survey of distributors showed that their view of the competitiveness of the market was not so positive. Of 32 customers who gave an opinion, 13 (41 per cent) thought there was strong competition in the market; 11 (34 per cent) thought there was moderate competition; and eight (25 per cent) thought that competition was weak. When the answers were weighted by the respondents' volume of gas fire purchases, the proportions of those who considered the market competition strong were higher. The comments of distributors on the state of the market and the effects of the merger are given in Chapter 5.