

4 Views of the main parties

4.1. Yale & Valor and Myson each submitted written evidence and each attended a hearing to discuss issues put by the Commission.

YALE & VALOR

Reasons for the proposed merger and benefits arising from it

4.2. Yale & Valor told us that the commercial rationale for its proposed acquisition of Myson was to extend its installed home products activities by the addition of Myson's central heating business. This was a business in which Yale & Valor was not presently engaged, and Myson had strong brand names and a significant share of the central heating market. In addition, in the case of gas boilers, Myson had established links with distributors who were in the main different from those with whom Yale & Valor had regular dealings. There was, therefore, scope to introduce Yale & Valor installed home products to those distributors. Yale & Valor said that it placed great emphasis on product innovation, design and marketing. The application of these proven skills to Myson's central heating business would strengthen that business to the benefit of customers for gas central heating systems.

4.3. Yale & Valor stressed that any benefits which might result from an increase in Yale & Valor's share of the market for gas fire, from economies of scale or a strengthening of its bargaining position were not relevant to its decision to proceed with an offer for Myson. Indeed, Yale & Valor had reservations about being committed, to any greater degree than it already was, to an activity which was seasonal, sensitive to the vagaries of the weather, and heavily dependent on a single customer, British Gas.

Effect of the proposed merger on competition in the gas fire market

4.4. Yale & Valor accepted that if the merger was allowed to proceed, the merged company would have a market share of the gas fire and wall heater market well in excess of 25 per cent. Nevertheless, in Yale & Valor's view, there would not be any adverse effects on competition. There were more than 50 manufacturers operating in the market, some of whom were subsidiaries of major United Kingdom manufacturing companies with strong brands and a high degree of customer awareness. Baxi had a market share in excess of 20 per cent, and Robinson Willey (Hanson) and Flavel (Glynwed) had more than 10 per cent each. Cannon (GEC) and Glow-worm (Hepworth) each had shares in the range of 2 to 6 per cent. Yale & Valor said that its present leadership of the market was the result of product quality and innovation. The merged company would hold this lead only if it retained these attributes; any complacency on its part would simply serve to attract new entrants to the market. Yale & Valor added that the merged company would find it very hard to maintain its market share. It would be a prime target for newcomers seeking to erode its position.

4.5. Yale & Valor told us that any pruning of the merged company's gas fire range would not significantly affect consumer choice. A wide range of flame-effect and radiant gas fires would still be available from other manufacturers.

4.6. Yale & Valor said that past experience suggested that British Gas would resist any attempts by the merged company to increase prices for gas fires. The impact of British Gas's purchasing power could be seen in terms of Yale & Valor's average prices and costs: in the year to 31 March

1988 selling prices had increased by 2.4 per cent, while material prices had increased by 3.4 per cent and annual wages by 6.3 per cent; in the following year selling prices increased by 1.6 per cent as compared with material cost increases of 1.8 per cent and a wage cost rise of 4 per cent. This trend was expected to continue into the year ending 31 March 1990. British Gas was in the business of selling gas, and selling gas fires was part of that process. Yale & Valor thought that British Gas would use its power to maintain competition between the manufacturers. There were many examples of British Gas helping new entrants into the market when they had a good product to offer.

4.7. Yale & Valor said that the availability of space heaters using other fuels, particularly electricity, was another restraint on raising the price of gas fires. Any reduction in the perceived benefits which gas fires had over space heaters using other fuels would be met by determined efforts on the part of manufacturers of these alternative space heaters to persuade customers to change to the competing products. All space heaters using other fuels were ready substitutes for gas fires if the main consideration was how to heat a room. On the other hand, a gas fire was not a ready substitute for any of the others if there was not a gas supply or an approved chimney or flue. Yale & Valor pointed out that electric fires with realistic flame effects were now on the market and it was possible to see gas fires and electric fires side by side in some retail outlets.

4.8. Yale & Valor said that for all the above reasons its acquisition of Myson would have no adverse effect on competition in the gas fire market. If, however, the Commission were to take a contrary view, Yale & Valor said that it would be prepared to meet any worries caused by an increase in its market share by giving undertakings to dispose of a relevant business as a going concern within a fixed period following completion of the merger. Yale & Valor added that even if the Commission concluded that the proposed merger between Yale & Valor and Myson might not be expected to operate against the public interest and that Yale & Valor could proceed with a new bid without meeting any pre-conditions, Yale & Valor would still consider disposing of a relevant business as a going concern so as to reduce its dependence upon a seasonal activity where a single customer accounted for such a substantial proportion of its business.

Effect of the proposed merger on employment

4.9. Yale & Valor said that the existence of a competing bid from BCI and the withdrawal of Myson's recommendation in favour of Yale & Valor's bid had meant that Yale & Valor had not had an opportunity to enter into detailed discussions with Myson's management as to the way in which the enlarged business would be organised if the proposed merger went ahead. It was, therefore, difficult to predict the effect of a merger on employment. It was likely that there would be a small reduction in the number employed at Myson's head office because Yale & Valor operated decentralised management structures. If Yale & Valor decided to retain Myson's gas fire business then it would have to consider whether, and to what extent, the gas fire activities of the combined company should be rationalised. Some loss of employment would, of course, result from such rationalisation. Other than in these two areas, Yale & Valor did not expect its proposals to have any material adverse effect on employment.

Effect of the proposed merger on research and development

4.10. Yale & Valor told us that it did not have sufficient information on Myson's current research and development activities to give any informed comment on the likely effects of the merger on research and development. However, Yale & Valor itself attached considerable importance to research and development, particularly in the form of new product development. Research and development was, in the company's view, critical to its ability to retain its position as market leader. This commitment would remain if the merger went ahead. It was, therefore, difficult to see how the merger could have any adverse effect on research and development.

MYSON

Reasons for the proposed merger

4.11. Myson said that it was clear, from its discussions with Yale & Valor, that Yale & Valor's prime interests in Myson were:

- (a) to widen Yale & Valor's activities in the United Kingdom heating and home products market; and
- (b) to enable Yale & Valor to use its marketing and sales network in the United States to accelerate Myson's penetration of the United States heating market.

4.12. Myson told us that its own sales of heating products in the United States had grown significantly over the past three years from a low base. Myson believed that access to Yale & Valor's network of NuTone home products distributors throughout the United States would lead to a substantially increased volume of exports. This would help to offset the United Kingdom's present imbalance in trade of heating products. Myson believed that this was the main benefit arising from the proposed acquisition.

Effect of the proposed merger on competition

4.13. Myson said that several large competitors had significant shares of the gas fire market. It estimated that Hanson (through Robinson Willey) had just under 16 per cent, Glynwed (through a number of subsidiaries, including Flavel and Kohlangaz) had around 12 per cent and Cannon (GEC) had just under 10 per cent. Cannon's share had grown by 4.5 percentage points over the past three years. Three other companies Focal Point, Wonderfire and Grateglow had each recently achieved shares in the range of 2 to 5 per cent, largely through the introduction of DFEs.

4.14. Myson pointed out that a number of potential competitors were well placed to expand their interests in the gas fire business. Baxi and Glow-worm, with shares of 3 to 4 per cent of the gas fire market, also made substantial numbers of fires for back-boiler central heating. Both were quite capable of stepping up production of conventional fires and of expanding into the DFE sector.

4.15. Another factor which encouraged competition was the absence of significant barriers to entry in the gas fire market. Entry was particularly easy for DFE production and a large number of new competitors had come into this market over the last few years. Once established, these companies would not find it difficult to manufacture LFE and other conventional fires. This capability had already been demonstrated by Kohlangaz.

4.16. Myson drew attention to the position of British Gas as the dominant distributor of gas fires. It had more than 60 per cent of the distribution and sale of gas fires of all types and more than 76 per cent for conventional fires alone. Prices were largely controlled by British Gas and manufacturers had therefore to design and build at a cost which would produce some margin at the controlled price. Margins had historically been low for all products sold through British Gas showrooms. This was particularly true for gas fires and gas cookers.

4.17. Myson said that the power of British Gas as a distributor was reinforced by its position as the key authority on approvals and on service listing of gas fires. This gave British Gas de facto control of the types and individual models of conventional gas fires sold through builders' merchants and independent retailers. These outlets would be unlikely to stock any gas fire not approved and 'service listed' for installation and spares by British Gas because they would be difficult to sell. This

pattern would not be easy to break; British Gas was one of the few retailers who could demonstrate working gas fires in its showrooms. Most other outlets lacked the necessary flues.

4.18. Myson said that gas fires also faced competition from heaters using other types of fuel. A gas fire was both a focal point and a heat generator. Solid fuel was an obvious competitor but it carried the penalty of inconvenience in the form of dust and smoke. Gas fires and solid fuel fires both required flues. Electric fires, on the other hand, overcame both inconvenience and the need for a flue and could be fixed to any wall. Electric fires were cheaper to buy and install but up to now had lacked an authentic live flame effect. This drawback was now being overcome and electric fires would in future provide increasing competition to those fuelled by gas.

4.19. In Myson's view there was little competition between gas fires and central heating systems. The latter provided uniform heat throughout a house and did not provide a focal point. The absence of such competition was illustrated by the fact that nearly 20 per cent of gas fires were installed in houses which already had central heating. Furthermore, some 17 per cent of new central heating installations used a gas fire with a back-boiler.

The effect of the proposed merger on research and development

4.20. Myson said that, like other heating appliance manufacturers, it was suffering from a shortage of qualified research and development staff. The company had therefore been unable to devote as much of its resources to research and development as it would have liked. More effort would be required in future to design, or adapt, products for overseas markets. At the same time, more research would be required to improve the efficiency of gas fires and to develop better materials for their surrounds. At present, Myson had to do these things in sequence rather than in parallel. If the research and development resources of Yale & Valor and Myson were combined a bigger impression could be made and duplication could be avoided. There would be a more efficient use of research and development facilities.

Conclusion

4.21. Myson said that for all the above reasons a merger would not be against the public interest.