

5 Views of other parties

5.1. We received evidence from manufacturers of gas boilers; British Gas plc, builders' and plumbers' merchants, retailers and other distributors (referred to collectively as distributors); stockists of spare parts; and the Builders Merchants Federation. Their evidence is summarised below.

MANUFACTURERS

5.2. Hepworth plc (Hepworth), through its Glow-worm subsidiary, is one of the 'big five' gas boiler manufacturers. Hepworth told us that a merger between BCI and Myson would probably not have a detrimental effect on price, availability, range of choice, quality and service. Hepworth believed there was over-capacity for boiler manufacture in the United Kingdom and that each of the major manufacturers could cope with a market share twice its present size. Competition would become even more intense with a decline in house building and a reduction in domestic spending.

5.3. Hepworth said that in competing with other gas boiler manufacturers it paid particular attention to what was happening in the various sectors of the market (eg floor-standing boilers, wall-hung boilers, back-boilers etc). This was more important than the position overall. If the merger went ahead the competitive situation would not change. At present, Potterton had the largest share of the market for wall-hung boilers and Baxi had the largest share for back-boilers. Adding Myson's low to medium share to that of Potterton would not make any difference; Hepworth would still be facing one big competitor in each of these sectors.

5.4. Hepworth told us that central heating installers were the key to competition as the public were most likely to seek advice from them on the choice of boiler.

5.5. Hepworth added that Europe was increasingly viewed as a single market for gas boilers and that a growing number of European manufacturers were entering the United Kingdom market.

5.6. Ravenheat Ltd (Ravenheat) told us that a merger would not have much effect in general as there would still be healthy competition throughout the industry. It pointed out that acquisition of the Myson range of domestic heating products would duplicate some of BCI's Potterton range. Ravenheat considered that there was great growth potential for the industry in the next few years.

5.7. Worcester Heat Systems Ltd believed that competition from European manufacturers in the domestic gas-fired central heating market was a major force in establishing a competitive market in the United Kingdom. In its view the removal of one major United Kingdom manufacturer would not alter competitiveness in the market and any effect on customer choice would be negligible.

5.8. Saunier Duval Ltd (Saunier Duval) said that a merged group would have, in its estimation, an overall market share of some 30 per cent and that this would enable it to impose its will on the market-place, in particular on prices. A merged group could reduce its prices which could make it very difficult for its competitors.

5.9. Saunier Duval also said that a merged group would have a very large commercial network which would give it a very strong position, particularly in the area of after-sales support.

5.10. Saunier Duval referred to the difficulties it had encountered in breaking into the United Kingdom market, particularly with its combination boiler which it had introduced in volume in 1984. Unless a product had British Gas approval it was difficult to market it, and getting approval for a combination boiler, where standards were not definitive, took time. Foreign manufacturers were at a disadvantage in not having such close ties with British Gas as the British manufacturers.

5.11. Grundfos Pumps Ltd said that there was an over-capacity for heating equipment in the United Kingdom and that some rationalisation and consolidation was essential. It strongly favoured a merger between BCI and Myson because of the long-established links BCI had with the distribution channels.

DISTRIBUTORS

5.12. In response to a question in our survey of distributors (see paragraph 3.4 and Appendix 3) six told us that they thought the merger would be in the public interest, nine thought it would be against and 23 thought that a merger would make no difference. Separately from the survey we received views from other distributors. The position of British Gas is outlined in paragraphs 5.13 and 5.14 and the opinions of other distributors are summarised under topic headings in paragraphs 5.15 to 5.29.

British Gas

5.13. British Gas told us that a merger would have a minimal impact. British Gas said that although a merged group would have, in its estimation, approximately 40 per cent of the wall-hung boiler market and 41 per cent of the floor-standing boiler market, it would have only approximately 23 per cent and 15 per cent respectively of the combination boiler and back-boiler markets which were growth sectors. The floor-standing sector represented only around 10 per cent of the total boiler market; all other manufacturers were represented in this market and competition would remain strong. Similarly, in the wall-hung boiler market, where Potterton's lead in the fanned flue sector had been eroded in recent years, there would be strong competition. British Gas told us that it sold, through its own installers and sub-contractors, about 18 per cent of all gas boilers sold in the United Kingdom.

5.14. With respect to gas fires, British Gas thought that overall BCI's acquisition of Myson would have a minimal effect.

Other distributors

(a) Competition in the gas boiler market

5.15. Wolseley Distribution Ltd (Wolseley) felt that a merger would benefit the central heating industry because Myson would be in the hands of a management fully committed to the industry. It believed that there would not be monopolistic pricing as there was fierce competition and some over-capacity within the industry.

5.16. Tricom Supplies Ltd (Tricom) said that the manufacture of gas boilers was highly competitive and would remain so if the merger took place. Baxi, Glow-worm and Stelrad were strong competitors and there were other British and continental suppliers in the market. Tricom believed that BCI's trading policies were in the best interests of the public and the industry.

5.17. Fry & Pollard Ltd told us that a merger would not adversely affect availability, range or quality. Both companies had a good strong merchant policy which was vital to the industry.

5.18. Coalite Group plc (Coalite) told us that the loss of one boiler manufacturer would slightly reduce price competition but that would be outweighed by the benefits of better customer service.

5.19. Wickes Building Supplies Ltd (Wickes), a retailer with about 50 stores, was concerned about competition. The size of the market for boilers meant that, after a merger, the remaining suppliers might not be in a position to meet Wickes' requirements because of the effect on their capacity: a smaller supplier would be swamped and a larger supplier would find it too much to take on if much of his supply was already committed. Also, Wickes told us it would not wish to see the pricing policy currently implemented by BCI for cement supplies applied to the pricing of boilers. Such a pricing policy would be potentially disadvantageous to the public. Wickes would not wish to see the same consistency towards price rises as it currently experienced from cement suppliers.

5.20. Essex Heating Company Ltd told us that a merger would lead to less choice for the installer trade and for the end user; it would only benefit the remaining United Kingdom boiler manufacturers. C & P Heating Supplies Ltd felt that in the long term there would be a reduction of choice and an increase in price. It was also possible that service and delivery would suffer. D & T Holmes also felt that there would be price increases in the long term. Otford Builders Merchants Ltd felt that Myson was needed as an independent force to keep competition strong.

(b) Product rationalisation

5.21. Wolseley, J & B Labone Ltd and Double Tee Heating Supplies Ltd (Double Tee) stated that product rationalisation by a merged group would reduce unnecessary duplication and help stockists to offer a better service. Double Tee said that rationalisation would result in a merged group being more competitive. One plumbers' merchant particularly felt that there would be some duplication of products and some rationalisation would take place, and there could be loss of employment. AHED Ltd believed that there was huge over-capacity in the gas boiler market and in the event of some rationalisation, should the merger take place, there would still be strong competition. Cyril Ridgeon & Son Ltd and Travis Perkins plc (Travis Perkins) also believed that there would be some rationalisation of gas boiler products.

(c) Imports and exports

5.22. Nine distributors, including Travis Perkins, Heating Replacement Parts & Controls Ltd, Double Tee and Miller Morris & Brooker, told us that a merged group would have a stronger position in the European market. Argos Building and Heating Supplies Ltd (Argos) said that there were too many major British manufacturers of central heating equipment to achieve the economies of scale and the cost reductions necessary to remain competitive in Europe. A merger would theoretically reduce competition but Argos believed that other large manufacturers would take some of Myson's market share. Even so, the large remaining manufacturers would still be small compared with some European manufacturers. Coalite believed it was essential that United Kingdom manufacturers were strong enough to compete against imports from Europe. H Bradley Ltd and Cowen Barrett Ltd said that a merged company would be stronger and it would help to combat imports. Heatek Services Ltd also believed that the stronger company created by a merger would not only protect the United Kingdom manufacturing base against imports, but would also increase the opportunity for exports to continental Europe.

5.23. Tricom believed that a merger would not significantly affect imports and exports. The European market sold predominantly on quality and service whereas the United Kingdom market sold mainly on price.

5.24. Barbican H & P Supplies Ltd told us that a merger would result in a reduction of United Kingdom supply and merchants would be forced to look abroad for supply. Large distributors had good deals with the few British manufacturers, but smaller companies like itself were

already forced to buy from importers. City Plumbing Supplies plc and Beaconfield Merchants Ltd also believed that a merger would force the smaller independent merchant to purchase from importers.

(d) Other views

5.25. Coalite told us it was essential that United Kingdom manufacturers could carry out proper research and development and provide acceptable after-sales service. Coalite also told us that although in the short term jobs could be lost, a merger should eventually enable stability of employment to be maintained in the industry.

5.26. Graham Builders Merchants Ltd believed that any fears that a large merged group would be detrimental to consumers must be allayed by the fact that all manufacturers of central heating equipment were subject to the massive pressures and influences of British Gas. Also, the wide range of products produced by a merged group would give it a marked advantage over smaller manufacturers.

5.27. Burge and Gunson felt that Potterton's expertise in the heating trade would be a great benefit to Myson, and although Potterton did not produce radiators at present the merger would pose no problems.

5.28. A retailer of gas appliances was concerned that BCI would be more inclined to source its products abroad as it had with its New World company.

5.29. Shoreheat Holburn Ltd expressed concern that all Myson spares went through Curzon Components Ltd, a wholly-owned subsidiary of Myson.

STOCKISTS OF SPARE PARTS

5.30. Ashwood Interparts felt that a merger would improve the service it received from manufacturers. Another spare part stockist was concerned that a merger might affect the availability of spares.

BUILDERS MERCHANTS FEDERATION (BMF)

5.31. The BMF told us that a merger would not have a damaging effect on the distribution interests of its members or on the merchanting industry.