

6 Conclusions

The merger situation

6.1. Under the reference, dated 27 February 1990 (see Appendix 1.1), we are required to consider whether arrangements have been effected which have resulted in the creation of merger situations qualifying for investigation, as defined in section 64(8) of the Fair Trading Act 1973 ('the Act'), in that:

- (a) enterprises carried on by or under the control of Westwood Engineering Ltd (Westwood) have ceased to be distinct from enterprises carried on by or under the control of RANSOMES plc (Ransomes), which is incorporated in the United Kingdom;
- (b) enterprises carried on by or under the control of Laser Lawnmowers Ltd (Laser) have ceased to be distinct from enterprises carried on by or under the control of Ransomes; and
- (c) as a result, Ransomes' share of the United Kingdom market for ride-on domestic grasscutting equipment either exceeds one-quarter or the amount by which it exceeds one-quarter has been increased.

6.2. Westwood and Laser were both controlled by Mr G A Hazlewood until Ransomes acquired the two companies on 24 August 1989. The ride-on mowers manufactured and sold by Westwood and Laser were identical except for the brand name and livery. The two companies had common management, manufacturing facilities and accounting operations. We consider that Westwood and Laser formed a single enterprise, which we refer to simply as Westwood (unless the context otherwise requires).

6.3. Table 3.5 gives our assessment of the shares of the United Kingdom market for domestic ride-on mowers held by various suppliers. Ransomes held 4 per cent of this market by value and 4 per cent by volume before its acquisition of Westwood and some 33 per cent and 35 per cent respectively after this acquisition. We conclude that, as a result of the acquisition, Ransomes' share of the United Kingdom market for ride-on domestic grass-cutting equipment exceeds one-quarter.

6.4. We conclude, therefore, that a merger situation qualifying for investigation, involving Ransomes, Westwood and Laser, has been created. Consequently, we have to determine whether the creation of this merger situation operates, or may be expected to operate, against the public interest (section 69(1)(b) of the Act).

Concurrent inquiry into Ransomes' acquisition of the Cushman Group

6.5. On 19 March 1990, ie some three weeks after the reference which is the subject of this report, another reference was made to the MMC of Ransomes' acquisition of the Cushman Group which consists of two United States companies, Cushman Inc and Brouwer Equipment Inc, and a Canadian company, Brouwer Turf Equipment Ltd. We expect to report to the Secretary of State on that reference by 18 June 1990.

The companies which have been merged

Ransomes

6.6. In recent years Ransomes' main business has been the manufacture and sale of mowers and other grass-care machinery, both for the commercial and the domestic markets. Ransomes' main manufacturing plant for commercial grass-cutting machinery is at Ipswich. Ransomes also has factories in the United States, Canada, France and Italy.

6.7. As regards the domestic market, with which this reference is principally concerned, Ransomes acquired G D Mountfield Ltd (Mountfield) in 1985 and from then until 1989 it manufactured walk-behind domestic mowers (mainly petrol-powered) at Maidenhead, where Mountfield was based. Mountfield also made a limited number of ride-on mowers but, in the main, imported such mowers from the United States. One source of its imports was The Murray Ohio Manufacturing Company (Murray) which, however, was lost to a United Kingdom competitor, Hayters plc (Hayters), in 1988. Another source was a range of models, generally more expensive than those of Murray, made by Simplicity Manufacturing Inc (Simplicity). Simplicity's ride-on mowers continue to be sold by Mountfield. After Ransomes' acquisition of Westwood, Mountfield's production was transferred from Maidenhead to Plymouth where Westwood's factory is located.

6.8. We accept Ransomes' view (see paragraphs 4.3 and 4.15) that it is operating an international business and that its main competitors are United States and Japanese manufacturers also operating internationally. 31 per cent of Ransomes' total turnover in 1989 of £126.6 million arose from business in North America; 35 per cent was from business elsewhere outside the United Kingdom, mainly in other Western European countries; while 34 per cent was from business in the United Kingdom.

Westwood and Laser

6.9. Since 1978 Westwood has concentrated on producing ride-on mowers of its own design and development. Some of these ride-on mowers were sold by an associated company, Laser, under different livery. Westwood's turnover in 1989 was £20.7 million, of which 34 per cent was from exports. Laser's turnover in 1989 was £96,900, all arising from within the United Kingdom.

6.10. Westwood also sold petrol-powered walk-behind mowers which it imported from IBEA SpA in Italy. At the time of the acquisition by Ransomes these imports, which competed with Mountfield's products, ceased.

Reasons for the merger

6.11. Ransomes acquired Westwood as part of its strategy of strengthening its position in European markets by broadening its range of domestic mowers. It had found it difficult to compete in other Western European markets against those of its competitors with wider domestic product ranges. Westwood was purchased, in the face of competition from a foreign mower manufacturer, and has extended Ransomes' range of ride-on domestic mowers. The cash consideration was £9.5 million. After fair value adjustments, this acquisition gave rise to goodwill of £15 million which Ransomes has written off against reserves.

The relevant markets

6.12. As explained in Chapter 3, we consider that, although there is some overlap, the market for domestic ride-on mowers is largely separate from that for domestic walk-behind mowers. The reasons for this conclusion are principally that:

- (a) ride-on mowers are substantially more expensive than walk-behind mowers: for example, ride-on mowers range in price from £900 to over £2,000, whereas most walk-behind mowers retail at £600 or less; and

- (b) the layout and size of gardens restrict the circumstances in which the use of a ride-on mower is sensible.

6.13. We estimate (see Table 3.2) that in 1989 about 1.5 million domestic mowers were sold in the United Kingdom, of which 1.48 million were walk-behind mowers and 22,900 were ride-on mowers. The ride-on mowers had a value to manufacturers and importers of £24 million (see Table 3.5) compared with a value of over £100 million for walk-behind mowers.

6.14. Although the two markets are largely separate, there is a common element in the distribution system. Dealers and sub-dealers provide the main link between the manufacturer or importer, on the one hand, and the customer, on the other. Most of the more expensive walk-behind mowers are sold through these specialist outlets, which also sell virtually all ride-on mowers. Dealers generally carry a range of different makes of mower, as this is what the customer expects to see.

6.15. The dealer networks of Mountfield, Westwood and Laser are involved in the merger. All three have main dealers and sub-dealers, some with more than one branch. Mountfield had 203 main dealers whereas, together, Westwood and Laser had 158. Fifty-three dealers were common to both. Ransomes has not amalgamated or otherwise rationalised these networks following the merger; its policy on this matter is currently under review.

Relationship with the market for commercial grass-cutting machinery

6.16. A number of manufacturers of domestic mowers, including Ransomes, also make commercial grass-cutting machinery. We have, therefore, considered whether a company's position in the commercial market significantly affects its competitiveness in the domestic market. We have concluded that it does not as the two markets are separate because:

- (a) the customers are different, being mainly private householders in the domestic market, whereas in the commercial market they are mainly local authorities, operators of golf courses and contractors;
- (b) the machinery supplied to the commercial sector is more expensive, being more sophisticated and designed for larger areas and more intensive use; and
- (c) the distribution channels differ: distributors of domestic mowers do not generally sell commercial mowers.

The public interest issues

6.17. The main public interest issue which we have found to arise in this inquiry is competition in the markets for domestic ride-on and walk-behind mowers and, in particular, the impact on the means of distribution of mowers. A second issue is the impact on employment.

Competition in the market for ride-on mowers

6.18. Ransomes was producing some Mountfield ride-on mowers before the merger with Westwood but the great bulk of its market share of 4 per cent by value in 1989 was made up of imports from the United States. Westwood was the leading United Kingdom manufacturer of ride-on mowers, with 29 per cent of the market by value in 1989 (including those ride-on mowers which it manufactured for sale by an independent company, Lawnmaster Ltd). We estimate that the merged concern has some 33 per cent of the market by value (and 35 per cent by volume). The effect of the merger has, therefore, been to increase concentration, but only by a relatively small amount. Moreover, the Simplicity ride-on mowers imported by Mountfield are generally in a higher price range than those of Westwood. Ransomes faces a wide range of competitors, in particular from those selling machines imported from the United States and Japan which have to surmount only a token import duty of 3.5 per cent. Imports account for some 60 per cent of the market. The largest

importer of Lawnflite machines from the United States E P Barrus Ltd (Barrus) has 25 per cent by value of the market. The next four largest suppliers three of whom are importers Blue Circle Industries plc (Blue Circle) (Atco Ltd), Electrolux Ltd (Electrolux) (Yard Products), Tomkins plc (Tomkins) (Murray) and The Toro Co (Toro Wheel Horse) have appreciable shares, amounting in aggregate to 21 per cent by value.

6.19. Although Ransomes now has the largest share in this market we do not consider its position to be dominant and we expect the established strong competition between suppliers to continue. Apart from the competition provided by Barrus, many of the overseas suppliers with smaller market shares are parts of major enterprises operating world-wide, such as Deere & Company (John Deere Ltd), Electrolux and The Toro Co. They can be expected to compete vigorously and will not be readily dislodged from the United Kingdom market. We note (paragraph 3.41) that several suppliers have come into the market over the last two years. The market has, therefore, been volatile and the general trend is probably one of decreasing concentration.

Competition in the market for walk-behind mowers

6.20. We noted in paragraph 3.14 that the lower end of the walk-behind mower market is made up mainly of electrically-powered mowers and that the upper end of the walk-behind mower market consists largely of petrol-powered mowers. Ransomes' Mountfield subsidiary is a leading manufacturer of petrol-powered walk-behind mowers, with some 26 per cent of sales of such machines by value in 1989. Westwood also sold imported petrol-powered walk-behind mowers, which accounted for less than 1 per cent of the sales of petrol-powered, walk-behind machines. Those imports by Westwood ceased at the time of the merger and are now handled by a competitor. As a result, the merger has not led to any increase in Ransomes' sales of petrol-powered walk-behind mowers.

6.21. Ransomes faces a number of strong competitors with significant sales of petrol-powered walk-behind mowers. These include Blue Circle (Qualcast Garden Products Ltd), Electrolux (Flymo Ltd), Honda UK Ltd and Tomkins (Hayters).

Distribution

6.22. We examined whether the extension of Ransomes' range of domestic ride-on and walk-behind mowers resulting from the merger would enable Ransomes to exert pressure on dealers to sell its products in preference to those of its competitors. Most petrol-powered walk-behind mowers and virtually all ride-on mowers are sold to the public by specialist outlets. In making our assessment we took account of the fears on this point which had been expressed to us by some of Ransomes' competitors (see paragraphs 5.2 to 5.16); as well as Ransomes' own evidence that the extension of its product range achieved by the merger was designed to make the company's products a more attractive proposition to continental importers, who would prefer to handle a full range of products from one source (see paragraph 4.3). (We also considered whether Ransomes' acquisition of the Cushman Group see paragraph 6.5 with the resulting extension of Ransomes' range of commercial grass-care equipment was relevant to this aspect of this inquiry. We concluded that it was not see paragraph 6.16.)

6.23. Ransomes asks its Mountfield main dealers to carry a representative range of its product, as is normal practice in this business. These dealers are both wholesalers and retailers and are expected to be able to provide the warranty service which Ransomes offers with its Mountfield mowers. Ransomes does not, however, prevent these outlets from stocking competitive products nor, on the evidence that we have received, do we think it would be practical for it to do so. Dealers are independent businesses and it is clear from the evidence that to be successful most retail outlets need to sell mowers supplied by a number of manufacturers. There are plenty of makes to choose from.

Our survey of Mountfield, Westwood and Laser dealers (see paragraphs 3.32 to 3.37) indicated that 62 per cent of their revenue from selling mowers came from selling competitors' mowers. Most of the outlets selling Mountfield or Westwood petrol-powered walk-behind mowers also sold those of four or more other manufacturers, and most of those selling either Mountfield, Westwood or Laser ride-on mowers also sold at least one competitor's ride-on mowers. It has been put to us that Ransomes will use the popularity of the Mountfield brand as a means of forcing dealers also to stock Westwood ride-on mowers. Having regard to the availability of competing supplies, both of ride-on mowers and of petrol-powered walk-behind mowers, and to what dealers have told us about the importance of their non-Ransomes business, we do not believe that Ransomes could put undue pressure on its dealers.

6.24. There is, however, one aspect of the existing dealership agreements of Mountfield, Westwood and Laser which causes us some concern. Although the relevant provisions in these agreements have not been created by the merger situation they bear on competition and we consider that we should not let them pass without comment. Mountfield's current main dealer co-operation agreement commits a main dealer not to supply other outlets at a discount higher than a specified maximum. Ransomes has explained (see paragraph 4.18) that this provision was introduced for the first time in 1989 in response to pressure from dealers who had been concerned at the growth of discounting during the poor trading conditions of 1989 but that it is now reviewing the inclusion of the provision in its Mountfield dealership arrangements. Westwood's terms to dealers contain a somewhat similar provision under which no more than a 7.5 per cent discount can be given by a dealer to a retail customer. (Dealers are given a small incentive of £20 per sale when returning the registration card for each mower sold by them or their sub-dealers provided, inter alia, this is accompanied by a copy of the invoice showing that no more than a 7.5 per cent discount has been given.) Again Ransomes is reviewing these provisions. It is believed that this practice may be common among manufacturers and importers of mowers. Terms of this kind in dealer agreements may be void by virtue of section 9 of the Resale Prices Act 1976. No doubt the Director General of Fair Trading will wish to consider this aspect.

Conclusion on competition

6.25. For the reasons set out in paragraphs 6.18 to 6.23, we consider that the merger will not adversely affect competition in either the domestic ride-on mower or walk-behind mower markets nor weaken competition in the distribution of domestic mowers as a whole.

Employment

6.26. One consequence of the merger has been the closure of Mountfield's former works at Maidenhead and the transfer of production to Westwood's Plymouth works, resulting in 120 redundancies in Maidenhead. As a result of this relocation over 100 new jobs were created in the Plymouth area, a development which was clearly welcomed in this area of long-standing unemployment. The immediate effect of the merger on regional employment has been beneficial and the overall impact in employment has been neutral.

6.27. We note Ransomes' statements that it is concerned to improve some aspects of remuneration and working conditions at Plymouth and to bring them into line with the higher standards at Ransomes' Ipswich works.

Conclusion

6.28. We conclude that the merger situation does not operate, and may be expected not to operate, against the public interest.

P H DEAN (Chairman)

M E BEESLEY

F E BONNER

P BRENNAN

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S N BURBRIDGE (Secretary)

29 May 1990