6 Views of other parties

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Introduction

6.1. In this chapter we summarize the evidence put to us by third parties in written and oral submissions.

Manufacturers

Axter Limited

6.2. Axter Limited (Axter) said it did not believe that IKO’s activity in the UK, directly through Ruberoid or indirectly through Icopal, operated, or was likely to operate, against the public interest so long as transparency existed. There were too many competing products and systems performing the same or similar functions for such a concentration of ownership to have any significant effect on prices or product availability. The bituminous felts industry needed a strong player to invest in the future of the market—something that had been lacking in recent years—and to ensure continued UK-based manufacture and jobs. Axter hoped that IKO would commit itself to this investment.

6.3. Commenting on the different types of bituminous-based membranes, Axter made the following observations:

(a) *Roofing underlays (ie products manufactured to BS747 Type 1F):* This was an extremely low-cost product and even if it were considered that Ruberoid and the UK Icopal subsidiaries (Andersons, Callenders and Vulcanite) operated as one company there were still three other producers in the UK, namely Marley, Rose and Chesterfelt. At the present market price, there was no incentive for importers to compete but, should the price increase by no more than about 10 per cent, then (as Axter put it) 'the economics became more interesting'.

(b) *Traditional roofing felts:* The place in the market for so-called traditional felts was declining fast. Most had been removed from the British Standard as not being of sufficient quality to meet the current needs of the construction industry. Current demand through roofing merchants was only being maintained through the 'cowboy' and uninformed elements of the industry. Not all users were 'cowboys', but the market price for the work was determined by them, and reputable small roofers had to compete to stay in business. Now that the setting of standardized test methods was nearing completion, work was about to start (under the auspices of the British Standards Institution) to revise BS747 so that it would set acceptable performance standards for roofing membranes to be used in the UK. Once a standard was published, it must be hoped that all these traditional felts would be withdrawn from manufacture. In the meantime, the three other manufacturers, Marley, Rose and Chesterfelt, all produced such products, and for products such as BS747 Type 3B (ie sanded bitumen glass fibre sheets), which could come under this heading, there was also import competition at current market prices.

(c) *High-performance products:* The market for high-performance membranes was extremely competitive, both within the product sector and also from different roofing types: metal roofing, polymeric membranes, liquid applied systems, mastic asphalt etc. Most of these systems were sold by specification, and the only criterion that Axter would like to see, with regard to IKO's activities, was that there was transparency in its operation. The four companies within IKO's control were all extremely well known in the marketplace, and specifiers needed to be fully aware of the common ownership. If not, then specifiers might ask three of the companies to quote for a contract, not realizing that they were, in effect, asking for quotations from only one organization. The relevant sales teams from the different companies all said that they were in competition with one another. This did not make good business sense and was not how Icopal had traditionally operated in other countries when there had been a similar conflict following an acquisition—and probably not how things would continue for long in the UK for at least the three Icopal-owned companies. However, Axter believed that transparency and openness in this regard would easily solve the problem.

British Polythene Ltd

6.4. Visqueen Building Products (Visqueen) was the trading name of British Polythene Ltd. It did not manufacture or supply any bituminous DPCs to the UK market. Most of its sales were of polyethylene DPCs, in the supply of which it competed with Damplast, Alderburgh and others, but not with Ruberoid or the Icopal companies (Andersons, Callenders, Vulcanite and ABIS).

6.5. Visqueen also produced a small amount of high-performance elastomeric DPCs (for commercial and industrial use), with sales of less than £[✄]. It did not produce a housing-grade DPC.

6.6. Visqueen said that, on the demand/customer side, polyethylene and high-performance DPCs were in entirely separate markets. Polyethylene products, manufactured to BS6515, met the minimum specifications required by the National Housing and Building Council to approve a building. High-performance products were specified by architects to ensure that they were given professional indemnity for their work. [

Details omitted. See note on page iv.

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6.7. Visqueen considered that contractors had enough buying power in general to resist price increases, but that this was not always the case. Some DPC installation was subcontracted and this could be either on a 'materials-included' basis (in which case the materials were purchased by the subcontractor) or a 'materials-excluded' basis (in which they were bought by the main contractor). Smaller subcontractors were less likely to have buyer power.

Chesterfelt Ltd

6.8. Chesterfelt said that its concerns as a competitor stemmed from the equity links which now existed between the two largest groupings (IKO and Icopal) of bituminous manufacturers in both the UK and mainland Europe. The major raw material purchased by IKO, Icopal and Chesterfelt was bitumen, and, should IKO/Icopal jointly supply their associated companies with bitumen, this could give them a major price advantage over Chesterfelt.

6.9. The threat could be further increased if the actions of IKO/Icopal resulted in a reduction in the number of viable suppliers for other key raw materials. In this way, Chesterfelt said, its ability to compete effectively with the major groupings would be eroded, leading to potential loss of market share and unsustainable profit margins. IKO/Icopal were already extremely strong in the areas of technical selling and marketing. The increased economies of scale in purchasing and production would provide the basis for achieving a similar dominance in the commercial sector.

6.10. Chesterfelt's primary customers were independent roofing merchants, which accounted for around 60 per cent of its sales and stocked all product groups (ie underslating, polyester, glass and rag-based flat roofing). Other customers included builders' merchants, roofing contractors and shed manufacturers.

6.11. Chesterfelt said that many customers wanted more than one source of supply, and this was to some extent driven by customers' preferences for particular products. Independent distributors could have a jaundiced view of dealing with the major manufacturers, as these tended to be linked to the chains. Chesterfelt said that it offered a good service and short lines of communication.

6.12. Chesterfelt took the view that big chains had attractive volumes but were demanding because they required servicing/merchandising of small branch volumes and they also required retrospective rebates and promotional funding.

6.13. Chesterfelt said that its development approach was to increase its share of sales into the accounts which it currently serviced, and to identify geographical gaps where independents existed and which it was not already serving.

6.14. In general, it viewed imports as a brake on higher prices. In addition, bituminous underslating was under threat from plastic underslatings.

6.15. On the subject of branding, Chesterfelt had built up a strong commercial brand image. At the higher end of the market it said that companies such as Icopal and Ruberoid had technical sales forces that made site visits and liaised with the specifier at the early stage of a project. The reward for this was to have their product named in the specification. Products specified by company name in this way could command a premium price and Chesterfelt did not have the resources to do this and had chosen not to do so.

6.16. As regards wholesale pricing, there was a gap between prices paid by large chains and by the independents but this gap was held in check by the need to allow the independents to be competitive with the chains.

6.17. Chesterfelt said that if Icopal/Ruberoid were to increase prices, it would be likely broadly to follow these prices upward and maintain margins as long as this did not disadvantage its own customers relative to the customers of Icopal/Ruberoid.

Integrated Polymer Systems (UK) Ltd

6.18. IPS was concerned that the merger could create a monopoly in several supply areas within the roofing industry. With this ability, the merged group would be in a position to influence market pricing artificially and destabilize the market, and further remove competition.

6.19. IPS said that the European flat-roof market universe was in the order of 278 million sq metres a year, while the UK universe was some 20.73 million sq metres. The market was growing at an annual rate of around 2.2 per cent. Of this UK universe, the single-ply sector was around 27 per cent, with early forecasts suggesting an annual growth of 4 per cent. IPS suggested that this growth figure was low, and it listed (see below) the factors which it believed would cause a significant shift in the historic market sectors.

6.20. In IPS's view, there were a number of reasons for the diminishing markets in felt-based systems (BS747, APP and SBS modified) and these included: health and safety concerns in relation to the installation process; rises in raw material prices were eroding the gap with more high-tech single-ply systems; lower margins in the felt sector; felts were considered as old technology; there was considerable European overcapacity, which was holding prices down; felt systems were generally not able to offer underwritten effective warranties; felt systems were not generally installed by quality-assurance-trained, monitored and approved contractor networks, so on-site quality control was difficult to maintain; felt systems were traditionally used in RMI and domestic sectors primarily because PVC single-ply systems had, to date, been the only alternative, and these systems were not compatible with bitumen; and there were very strong environmental issues that would push environmentally-friendly TPO systems to the fore.

6.21. IPS said that the new generation TPO not only challenged the PVC systems on environmental issues but also the felt systems on these issues and those outlined in the preceding paragraph. Price was an issue but single-ply systems—and particularly TPO—offered other distinct advantages which helped support the issue of price. These included: speed of installation which reduced labour costs; more robust warranties; given the general reduction in available manual skills, the comprehensive training programmes implemented by single-ply manufacturers, together with on-site inspection and QA programmes, offered clients more comfort than with commodity felt systems; environmental issues; aesthetics; and the fact that TPO systems were more fire-resistant than felt systems.

6.22. IPS added that single-ply membranes constituted only 29 per cent of the roof cost so, while felts might be marginally less expensive (depending on the specification), the overall cost would not be drastically affected by the use of a single-ply or APP felt system. If the warranty and the whole-life cost of using a single-ply system were taken into account, then the cost was considerably less.

Marley Waterproofing Limited

6.23. Marley Waterproofing Limited (Marley) and Marley Floors Limited were separate business units with a common administration within the Marley group. Marley specialized in the manufacture of waterproofing products, mainly bituminous membranes. Marley was owned by the Belgian company, Etex, which was one of the largest suppliers worldwide of pitched roofing products. Turnover for Marley's waterproofing business at the end of 2000 was approximately £20 million. Marley produced bituminous roofing materials from its factories at Hertford and Aylesham, and DPCs at Lenham. It told us that its level of activity in these product areas had grown considerably in recent years and that it was currently investing further in this part of its business with the aim of continuing to increase its sales of both flat and pitched roofing products—in part by building on relationships which its parent and sister companies already had with a wide range of distribution outlets throughout the UK. Marley competed with Ruberoid and Icopal across the board and it out-produced one or both of them in a number of sectors. For example, it supplied more underslatings than Ruberoid and more DPCs than Icopal. Marley had significantly increased its market share in these products in recent years. It also produced own-brand products such as underslating felt for pitched roofing and structural waterproofing materials. Marley said that it expected to expand its business over the next few years by introducing some new product initiatives, [

Details omitted. See note on page iv.

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6.24. Marley said that there were two distinct markets: built-up roofing (which was the traditional way that contractors laid the material) and high-performance products, which were expected to last about 20 years. The higher-value, longer-lasting sector was driven mainly by manufacturers, while the built-up traditional sector was driven more by the contractor. Within the roofing market, Marley believed that pitched and flat roofing actively competed with each other. There had been, and continued to be, an ongoing active campaign to convert flat roofs to pitched roofs in recent decades, mainly because of underperformance of flat roofs as a result of some poor workmanship in the 1960s and 1970s.

6.25. Marley said that it was mainly involved in the RMI sector rather than new building business but, if it were to target differently, then it would probably gain more business in that sector. RMI accounted for [✄] per cent of Marley's roofing business. It manufactured a few single-ply bituminous products which it was actively promoting into the new-build sector, with difficulty—hence its strategy of re-examining a single-ply product for that purpose. Marley saw the RMI and the refurbishment parts of its business growing in the next few years, with new building business possibly slowing down somewhat. It said that one of the reasons that prevented it from exploring more new-build commercial business than it currently did was the prominence of single-ply PVC products used in new commercial construction. Marley did not produce single-ply PVC, [*Details omitted. See note on page iv.*].

6.26. Marley said that, historically, it had been very dependent on supplying directly to roofing contractors, of which it estimated there were between 200 and 300 reasonably-sized operations throughout the country. Until 1998 it was mainly through the contractor that its product reached the marketplace. More recently it had taken a conscious decision to increase the volume of its sales through other routes, such as builders' merchants, specialist roofing distributors and DIY stores, and as a result it had come more directly into competition with Ruberoid and Icopal in these areas. To this end, it had invested considerable time and effort in forming substantial commercial relationships, which it described as 'partnerships' with builders' merchants. As part of a typical deal, the builders' merchants made their customer base available to Marley and Marley offered a comprehensive product package with appropriate marketing support. Marley believed that if its business was to be sustainable, it had to have this type of distribution, which was the key to getting more of its product to the marketplace.

6.27. Marley said that the price of the product which it sold was determined by the market, as was the case with competitors' product. No guarantees were given on holding prices at a particular level, nor was the industry volume-related. Discounts were negotiated with various distributors, but these were based on list price. Marley said that there was always resistance to price increases, but builders' merchants were actively competing with specialist distributors in these commodity products and they were competing for the same small builder and the same small contractor. Marley believed, therefore, that there existed a balance from a competition point of view.

6.28. Marley felt that the relationship between the distributor and the builder was not a particularly strong one, but the key relationship was that between the roofing contractor and the builder. On the question of approved contractors, Marley said that it was increasing its efforts with clients and specifiers to have its product specified by name. If the product were linked to an insurance-backed guarantee (which would be a cost to Marley), this meant that there would be less scope for the contractor to use an alternative product. Ultimately, this could be regarded as competing on a guarantee basis rather than on a product basis. For the smaller contractor there was always more scope in the type of product that it used, but for the larger contractor, where it was tied into clients' specifications, there was less scope for it to change the type of product. However, there were many alternatives available to a particular Marley product which may have been specified and the contractor could experiment.

6.29. Marley said that, in its experience, pricing in the lower-level products sector had been very aggressive in the last few years. This was mainly because there was considerable capacity available in the UK market for the production of these products. Also, the competition effect of Marley having acquired access to very large tranches of builders' merchant distribution meant that other industry participants were competing very aggressively to try to recover that volume from some other source.

6.30. Asked about possible unilateral price increases by the merged entity, Marley thought that, from a customer point of view, there would be a fairly aggressive reaction. The market was very price sensitive.

6.31. Marley said that it had not detected any changes in the way Ruberoid operated following its acquisition by IKO. The Icopal subsidiaries (Andersons, Callenders and Vulcanite) appeared to be operating quite independently of each other, and they were also competing with each other. Marley thought that they were all price aggressive in different ways. If there were to be a policy of integration within the merged group, then Marley believed there might be an adverse reaction to it from customers. Marley also believed that Icopal would remain a serious competitor in the marketplace: the group had a very strong image worldwide, particularly in Europe, and it was a very credible player.

Rigidal Industries Limited

6.32. Rigidal Industries Limited (Rigidal) was a manufacturer of metal roofing. It said that metal roofs competed with bituminous felt and other flat-roofing products, because specifiers had a choice between these products. Each had its own merits, and some were more suited to certain applications than others. Rigidal said that there were a number of factors influencing a specifier or contractor's choice of felt roofs or metal roofing. Bituminous felt was now out of favour and had largely been superseded by single-ply membranes such as PVC and EPDM. The final decision on the type of product to be used would depend on a number of different factors. These included price, aesthetics, roof slope and shape, number of penetrations through the roof, desired lifespan, access to the roof and various other considerations. Rigidal said that, if prices of bituminous felt increased, then there was potential for a small gain in sales in metal roofing but it would not regard this as significant.

Rose Roofing Limited

6.33. Rose sold its products through a range of distribution routes. Small specialist roofing distributors accounted for around [✂] to [✂] per cent of sales, shed manufacturers for around [✂] per cent, and around [✂] per cent were supplied to companies known as 'factors', which sold them on, along with a range of other products, to outlets such as B&Q and Homebase. [*Details omitted. See note on page iv.*] In 2000 about [✂] per cent of its sales was to Ruberoid, but this was because of a fire at Ruberoid's factory and was not ongoing business. The balance of sales was direct to contractors. In general, Rose tried to have a good spread of business. A few years ago Asphaltic accounted for around [✂] per cent of its sales but that business arrangement ended following the takeover of Asphaltic by SIG.

6.34. Rose said that its strengths were in the high standards of service it provided, and in its flat business structure, technical response and pricing. The market was price driven, and Rose assumed that all major manufacturers had an advantage over Rose in purchasing raw materials, although it did not have evidence of this. Rose did not see itself as being sufficiently large to take initiatives in the marketplace: for example, it did not develop new products. It had plans to grow, but this might not be in roofing felts [*Details omitted. See note on page iv.*].

6.35. Rose said that the volume of sales could fluctuate depending on the market overall. At present, Rose's level of spare capacity was not a major concern, but it was constantly monitored and could become so if demand deteriorated. If Icopal or Ruberoid were to increase prices, Rose said that it too would follow. It regarded itself as a price follower in a volatile market, and it took the opportunity, where it could, to increase its margins.

Tremco Limited

6.36. Tremco said that it had been a manufacturer of bituminous roofing felts for the last 15 to 20 years. These accounted for less than 6 per cent of its UK sales; other areas of business included sealants and adhesives. It viewed the market as having two parts: first, the bulk-driven sector, in which Icopal was very strong, and where materials were supplied through a range of distribution routes. This sector was price driven and competitive. The other sector was the specification-driven market in which Tremco was active. Tremco said that it dealt directly with architects, specifiers and building owners to provide solutions to roofing problems, both in new systems and refurbishments. It surveyed sites, analysed the problems and supplied roofing via a network of around 25 contractors. It expected to increase sales over the next few years by winning more business for these contractors. Because it did not have the economies of scale of Icopal, its material costs were higher. As a service-driven business, it also had higher prices and margins on the materials it sold. Tremco said that its main direct competitor was

Erisco-Bauder Limited, which had a similar approach to itself. The costs of entry into this sector were high because of the need for a sales force with specialized training and experience. To a lesser extent, Tremco also competed with contractors.

6.37. Tremco said that Esha (UK) Limited had indicated to it that it would like to increase sales in the UK, as this was the third largest flat-roofing market in Europe. However, Tremco had concerns that Icopal was dominating the market. It did not think that imports were strong in the market, because imported products were not often specified by architects, who tended to favour the Callenders and Andersons brands. As a result, importers were tied to working with price-driven contractors. Recent increases in imports were due to the strength of sterling, and this was a quirk which could easily change.

6.38. Tremco said that the brand itself was not critical to the end-user, as all materials were basically fit for the purpose. The strength of Icopal was due to a mixture of things including relationships, trust and history.

6.39. On the question of what type of contractor used imports, Tremco said that there was a spectrum of contractors, from large, industrial contractors to small, domestic ones. At the large, industrial end, guarantees and product quality were a bigger issue, as the risk attached to product failure was much greater because it could lead to factory down time and incidental losses. At the smaller, domestic end there was less risk and consequently less emphasis on brand. It was this end that importers tended to serve. Tremco suggested that the most practical approach to this end of the market was to establish a warehouse, and then hire a salesman to visit the contractor with product literature and a competitive price offer.

6.40. Tremco had not been aware that the cost of bitumen was different in the UK from that in mainland Europe. Tremco imported various materials from all over Europe, from wherever it was cheapest. In practice, material costs accounted for a small proportion of Tremco's costs but it had been aware that efforts to pass recent cost increases in the market on to customers had not been very successful.

Builders' merchants

Travis Perkins Trading Company Limited

6.41. Travis Perkins told us that approximately 75 per cent of its customers were firms of less than five employees. These were jobbing builders who did renovation or repair work but not new build. Other customers were small to medium-sized subcontractors. Roofers went to specialist roofing distributors. It said that consolidation of builders' merchants would continue, but at a slower rate.

6.42. Travis Perkins said that it told customers it would get the products they asked for but it also stocked a range that it would sell first. Customers were very conservative. The person who decided on the roofing material was the one doing the job and there was little discussion between the customer and the builder.

6.43. Travis Perkins said that the flat-roof market was static; although traditional materials were gradually being superseded the traditional builder did not trust new materials. Travis Perkins did not see metal roofing as competing with bitumen felt roofing.

6.44. Travis Perkins told us that it would not want to see rag-based felt withdrawn as it was its biggest selling product. However, it would not mind provided everyone was treated the same and a better product could be sold. Legislation tended to force change unless a new product was cheaper, easier to use and quicker to install. However, better-quality materials were going into new roofs because there was a greater awareness of whole-life costs. The felt market was moving into newer products where there were competitors. Travis Perkins said that installation was about the quality of the work as much as the product, although polyester was more forgiving than rag if badly installed.

6.45. Travis Perkins said that underslating felt was very cheap but the market was diminishing, and was being replaced by breathable membranes, much of which was imported. It did not deal with importers as a matter of policy because it was difficult to get specifications, and reputation was important. Entry was easy because it was fairly cheap to set up. Marley produced a quality product but Travis Perkins did not use it.

6.46. Travis Perkins told us that there were three categories of DPCs: traditional bitumen based, which was declining; new polythene DPCs, which were popular, cheap and suitable for small houses; and high-performance polymer, which were suitable for domestic and for commercial buildings. There was no market for the really cheap DPCs and the price difference between that and polythene was very little. The average housebuilder bought polythene which was good enough for most purposes. Travis Perkins bought polythene from Visqueen. As it was very easy to make there was availability and continuity of supply. If Ruberoid stopped making DPCs, Travis Perkins would consider Vulcanite first, then Marley.

6.47. Travis Perkins mentioned the importance of relationships in sales. It said that it did not like to change suppliers but considered itself to be in a strong position, buying at competitive prices with security of supply. However, it would not underestimate what the smaller buyers could achieve.

6.48. Small suppliers did not have electronic data interchange, security of supply, the sales force and marketing strategy. All this was important for Travis Perkins whereas the small merchant did not appear to need such sophistication or distribution. Importers could not provide the support to Travis Perkins because they did not understand the UK market. Manufacturers generated sales, knew the end-user customers and where the contracts were. Travis Perkins relied on the big companies to market the brand; Travis Perkins's 'brand' was the service. Travis Perkins had some own label which helped to sell the Travis Perkins brand overall. Travis Perkins went for quality products so that they were known for quality, and manufacturers liked to be associated with a quality product, which own-branding provided.

6.49. Travis Perkins told us that they had not seen any change in behaviour of the companies since the merger, and recent price increases appeared to be independent. If IKO and Icopal got together then Travis Perkins would be concerned whether Marley would have the capacity and be able to supply in the short term. It would take Travis Perkins about six months to establish a new supply route, if one existed.

Wolseley Centers Limited

6.50. Wolseley Centers Limited said that it was neutral regarding the merger, and therefore had no comment to make either for or against it.

A builders' merchant

6.51. This builders' merchant operated through 20 outlets. It said that annual purchases of bituminous felts amounted to between £250,000 and £500,000, mostly from Marley, although some sales were of Andersons products, which customers sometimes specified. It obtained supplies of DPCs mainly from Marley. It observed that Ruberoid's Hyload was a strong brand within the marketplace. It said that it was in a reasonably strong negotiating position relative to suppliers. The company said that it was probably at a slight disadvantage compared with its competitors, such as Travis Perkins, because of their greater buying power. It said that competition at the retail level was not just a matter of price: the company provided a good level of service (for example, good stockholding and a prompt delivery/collection service), and it was not the cheapest in the marketplace.

A builders' merchant

6.52. This builders' merchant said that it purchased bituminous felts from Ruberoid and others. It also bought other roofing materials direct from large roofing distributors. It said that the larger buyers got significantly better prices than the independents because of retrospective rebates. As a result, it was often as cheap for an independent to buy from a large distributor as it was to buy direct from the manufacturer. Because of this price difference, the retail prices charged by this builders' merchant were between 10 and 20 per cent higher than those of the larger builders' merchant chains. As this builders' merchant could not compete directly on price, it said that it did so on customer service. As regards DPCs, it believed that Ruberoid had a monopoly in pitch polymer materials because of customers' preference for its Hyload brand.

Roofing distributors

A M Proos & Sons Ltd

6.53. A M Proos traded as Proos Roofing Supplies. It said that 60 per cent of its trade was with roofing contractors. Its main competitor was SIG. A M Proos competed on price and service (technical support, delivery, timing, trained staff etc). The attraction of buying from A M Proos rather than the manufacturers was that it could service the contractors' day-to-day needs and hold stock on their behalf, thus reducing the risk of theft.

6.54. A M Proos said that it had a well-established relationship with Callenders. If Callenders were to become less reasonable it would change to Marley. It would not consider Rose or Chesterfelt because they could not provide the range or volume it needed. It stocked primarily the traditional and lower-performance felts ('torch-on' and rag-based). If there were requests for the higher-priced, high-performance specified products, it would go to the manufacturer.

6.55. A M Proos said that it had an annual agreement with Callenders which tied it in to a certain degree—although the level of rebate it received was similar to that offered by other manufacturers. If it were to have a more attractive offer from another manufacturer a retrospective rebate could inhibit it going elsewhere; the relationship was built to get the annual rebate. It said that it reviewed the relationship every year on the basis of the material supplied and the level of service. There had been a relationship with Callenders for seven to eight years and it saw no necessity to change. Before that it had dealt with Engert & Rolfe, which had merged with Callenders. There had been approaches from other manufacturers from time to time and A M Proos had decided not to switch to their products as its core stock.

6.56. A M Proos said that it did not sell imports because of past problems over supply and currency fluctuations. Agents did not approach it, and it was company policy not to import. It did buy from Monarflex (now part of Icopal) but its contact was with the UK operation although, it believed, the underlinings it bought were manufactured in Denmark. It thought SIG might import a little but imports probably went direct to contractors. A M Proos liked to have a partnership with the manufacturer as it provided the product and A M Proos provided the service.

6.57. A M Proos said that the manufacturers trained the contractors to lay the materials qualified for insurance-backed deals for high-performance felts, and the contractors bought these felts direct from the producers. There were several contractors that A M Proos did not deal with because it was not able to supply such systems.

6.58. A M Proos said that when it started 25 years ago flat-roof green mineral felt was expected to fail after two to three years. Now customers were asking for a longer product life, and there was a longer replacement cycle. Most of its customers bought a two- to three-level built-up roofing system. However, A M Proos was selling the same amount of bitumen. It bought single-ply plastic from Callenders or Marley as and when it was needed.

6.59. Metal roofing was sold by SIG, TSE (Haringey) and Décor. There were a lot of problems with metal—frost, rain, noise. It was used mostly for warehouse pitched corrugated roofs and was not in direct competition with roofing felt. There had been a rush to corrugated metal in 1989/90 because of the withdrawal of asbestos fibres. But its limitations had become clear by the mid-1990s, and it was not taking away significant sales from bitumen-based products.

6.60. A M Proos said that the industry did not like change but guarantees offered by manufacturers were moving the market. Traditional roofing contractors used rag but, against this, end-users wanted their roofs to last. Therefore, the lower end of the contractors bought rag, for example to patch up roofs. 'Torch-on' was easier than 'pour and roll'. Cold adhesive and self-adhesive were largely DIY, and not liked by professionals.

6.61. Bituminous products were still preferred, although manufacturers offered plastic. There was a price difference. The market tended to be specification-led, and there was a degree of marketing hype.

6.62. A M Proos said that brands were important for flat roofing, for example customers were very comfortable with Andersons. A M Proos liked to work with a preferred supplier.

6.63. There had been no significant increases in the price of roofing felt although there had been high price increases for bitumen kegs.

6.64. A M Proos said that it tried to obtain price increases on the products it stocked and it did not necessarily follow the market as it had its own stock to sell. It thought that customers were price sensitive because contractors were quoting for jobs three to four months in advance of starting the work. A M Proos would work with the customer to find out how many jobs there were in the pipeline and get in enough stock. It had notice of price increases from the manufacturers, but its customers did not pay it in advance. There were no consignment stocks, and there were different prices for different contractors. It had 60 days' payment terms with the manufacturers, depending on the product. Manufacturers also helped it with the supply of marketing and brochures.

6.65. A M Proos said that there had been instances of Ruberoid refusing to supply it because it dealt with Callenders and Ruberoid did not think that A M Proos was selling enough Ruberoid products. An architect would specify either a named product or a system, which—if it were Ruberoid's—A M Proos would supply but, if the specification were simply for a type of system, then it would offer the one it had in stock, which was generally Callenders.

6.66. When Ruberoid began to supply Permanite it was branded exclusively for SIG. Ruberoid had refused to supply A M Proos at the time when the Permanite/SIG deal was done. Ruberoid had come back to it in January 2001 and had reopened an account on new standard terms. A M Proos had not used it yet, but would now offer Ruberoid products if asked by customers. It had lost customers—as had Ruberoid—because it could not supply Ruberoid products.

6.67. Pricing was not what made A M Proos competitive. Regular roofing contractor customers would give it the option to supply before going elsewhere for Ruberoid products. While architects were aware of price, they would prefer to choose a product on the basis of guarantees, probably being influenced by past experiences of roofing membrane failure.

6.68. Although A M Proos had seen significant changes within the Icopal group, it confirmed that it had not noticed any changes in its relationship with Ruberoid since IKO's participation in Holding in July 2000.

SIG Roofing Supplies Limited

6.69. SIG Roofing Supplies Limited (SIG) is a subsidiary of SIG plc. It is a specialist roofing distributor encompassing the various types of roofing materials that are available in the UK: these include flat-roofing, pitched-roofing and industrial sheeting and cladding. It operates through a network of 70 branches nationwide under various brand names including Asphaltic. SIG said that it was distinct from its competitors because of a number of key attributes, including its ability to stock product in depth and in range, get the product to the customer, price it competitively and offer advice on what the customer might use in a particular application.

6.70. SIG said that the market was competitive. The competition that SIG faced meant that it often could not get the sort of premiums on product that it would wish. It would aspire to improve profit margins, but the market was such that its ability to drive margins up in such difficult circumstances was restricted.

6.71. SIG said that the market was very price sensitive. Some customers were less sensitive about price than others, but price played a key part in trading arrangements. Because of its frustration with price indiscipline in the marketplace, it had implemented a price list framework within its branch network which set different prices depending on quantity, grades and type of customer. Generally speaking, prices for flat roofing products in the North of England were lower than those in the South: since around 60 per cent of the roofing business was carried out in the South, there was greater volume and therefore price pressures did not exist in the same way as they did for distributors in the North of England.

6.72. SIG's key customers were small- to medium-sized specialist roofing contractors. It traded with some of the larger specialist roofing contractors, although they tended to deal more directly with the manufacturers, and it also supplied some builders' merchants, both national and independent. Since builders' merchants were not specialist, they often called on SIG's experience to assist their customers.

6.73. SIG stated that it would like to improve its profitability in this particular market and to be regarded as an organization that added value to the industry that it served, both in terms of the customer and the manufacturer. It believed that there was scope for both organic and acquisitive growth in the UK: the market was large in overall roofing terms, and SIG had some way to go in capturing some of that available market. The same applied in terms of best practice (ie the way it conducted its business) where continued investment in its capability, stocks, infrastructure, IT, sales staff etc were all elements that made a business successful. SIG had a long-term commitment to specialist distribution markets.

6.74. SIG said that, at the lower end of the market, materials were easily substitutable and brand was less important. The higher the performance, the more importance was attached to the brand. In traditional felts, SIG stocked five different brands: Ruberoid, Permanite, Andersons, Callenders and some Vulcanite. The Permanite brand was reintroduced in October 1999 because it still had a strong brand equity; it was currently exclusively available to SIG.

6.75. SIG said that, as regards flat roofing, particularly in relation to bitumen-based membranes, RMI was the most significant part of the market. Bitumen-based membranes had all but been precluded from the new-build sector by other membranes and other solutions. In the case of new build (which was predominantly private rather than public sector) the client, architect or building contractor led the way in specifying non-bitumen-based membranes and other solutions. SIG thought it unlikely that flat-roof coverings of a bitumen nature would ever regain a significant share of the UK new-build market. It noted, however, that in mainland Europe bitumen-based coverings were still prevalent.

6.76. Because of the nature of the flat-roofing market, and the fact that bitumen-based membranes were being used less and less, SIG said, manufacturers were increasingly looking to deal direct with the end-user, and that was a development that concerned it.

6.77. As regards the possibility of importing traditional felts, SIG said that because of the low price of the product, any price benefits would be offset by transport costs. Indeed, many mainland European countries did not even manufacture these types of products, and they could not necessarily manufacture them to British Standard.

6.78. SIG said that it would be concerned if there were to be a reduction in the range of products available in the UK, as it was heavily involved in the marketplace. Icopal had announced that it would be seeking synergies across its businesses, principally geared to ‘back office’/manufacturing. There was no indication, however, that it was considering a reduction in the range of brand availability. As regards brands, SIG could see no benefits arising from a consolidation of the Icopal and IKO businesses.

6.79. SIG had some concerns about the merger, which principally related to the mutual ownership and shareholding. There would be a distinct lack of indigenous quality brand choice in the UK that was outside the control of Icopal or IKO. The possibility of traditional built-up roofing products being withdrawn from UK manufacturing and sale, together with the restricted ability to import, also posed a threat to choice.

6.80. On the question of confidentiality, SIG said that the potential for a general transfer of information between the two parties vis-à-vis trading trends and similar matters existed and, therefore, this might inhibit SIG’s ability to have confidential discussions with individual companies within the merged group.

6.81. SIG asked that an undertaking should be sought which would ensure that the merged companies continued to operate as they did before the merger, offering a full range of products (including traditional felts), and that appropriate firewalls be put in place to prevent the free flow of commercially confidential information between Ruberoid on the one hand and the Icopal companies on the other.

Wedge Roofing Centres Ltd

6.82. Wedge Roofing Centres Ltd (Wedge) considered that it was in a strong negotiating position relative to its suppliers. It said that it compared its prices with those charged by its competitors, and also with those charged by different suppliers of similar types of products. Wedge competed with the larger builders’ merchants but only in a small sector of the market: purchases by members of the public. The company said that it was tied in to current suppliers by retrospective rebates and had been tied in by marketing support.

6.83. Wedge said that price increases alone would not cause it to switch supplier. It would look at the circumstances, the market and alternatives before it reacted. Wedge had a wide range of suppliers for all types of flat- and pitched-roofing products. There was therefore no one supplier that it used, nor one alternative that it would consider.

6.84. Wedge would consider importing bituminous felts from mainland Europe. The issues involved were mainly related to currency stability, additional transport costs, and price and reliability of delivery.

A roofing distributor

6.85. A roofing distributor considered that it had a reasonably strong negotiating position with manufacturers of roofing felts, although this had become increasingly difficult in recent years because of consolidation within the industry. In addition, Ruberoid, Andersons, Vulcanite, Permanite and Callenders were all interlinked and operated a verbal joint marketing policy, which went unofficially further with an agreement between them not to undercut prices to each other's customers. Apart from Marley, which had limited production capacity and supplied mainly DIY outlets, there remained only two independent manufacturers, Chesterfelt and Rose. Both these companies had limited production capacity, and Rose produced roofing felt for Andersons and Ruberoid, which kept it busy and 'in line' because, the roofing distributor suspected, Ruberoid was Rose's largest customer. The roofing distributor said that Chesterfelt followed the market leaders and was careful not to upset the equilibrium, and it was allowed to manufacture and market its products up to its production capacity in return for not operating an aggressive pricing policy.

6.86. The roofing distributor said that it competed regularly with the larger builders' merchants, such as Jewsons and Travis Perkins. It was not tied in to any contracts with current suppliers; small percentage rebates were sometimes available from them, and occasional market support. The company said that Ruberiod was its preferred supplier. Although Andersons and Vulcanite were acceptable, they were reluctant to compete on price.

6.87. The roofing distributor imported 'torch-on' roofing felt from Italy, and had done so for the past few years; it was of superior quality and was 30 per cent cheaper than UK-manufactured felt. It also imported some polyester-based roofing felt from France, which was between 5 and 10 per cent cheaper than that of UK origin.

A roofing distributor

6.88. Another roofing distributor said that it had enjoyed a long-standing relationship with one of the UK-based manufacturers, which at the time was its main supplier, and which now was one of the parties involved in this inquiry. This business relationship had successfully lasted from 1987 to 1996 until market forces progressively seemed to create panic among the UK-based manufacturers which were concerned about the supposedly declining sector of the market. The roofing distributor said that one of the manufacturers' concerns seemed to be that there was a lack of control of distributors. Selected customers enjoyed the benefit of consignments of stock (tied in with an IT system provided by the supplier), and the manufacturers had deemed it necessary to reduce the product range available to distributors at a stroke.

6.89. The roofing distributor said that, for approximately three years prior to 1996, the leading manufacturers appeared to be involved in pricing arrangements which were not particularly beneficial to distributors or end-users. All price increases occurred within seven days of each other with exactly the same percentages being applied to corresponding products, and which conformed either to British Standard or to standard formulations agreed and known within the industry. Although the company did not have any hard evidence, it was difficult not to draw obvious conclusions.

6.90. For its part, the roofing distributor said that its position was one of survival. It had enjoyed minor trading relationships with a number of foreign manufacturers, and in the end it became necessary to build a new relationship with a company capable of manufacturing superior products than those it had obtained from home-based distributors.

Roofing contractors

Western Flat Roofing Company

6.91. Western Flat Roofing Company (Western) said that it purchased its supplies from Ruberoid, Andersons and Callenders, depending on the type of contract. For domestic contracts it bought mainly from Ruberoid but also from Callenders; it obtained prices from both companies and took the more competitive. As a large roofing contractor, Western said that it held stocks of felts and single-ply membranes at its warehouse and sold products to smaller roofing contractors in the locality. Western believed that the volume of its purchases gave it sufficient buying power to achieve competitive rates. The main alternative supplier in the marketplace was Vulcanite. It was aware of the presence of Chesterfelt and Rose but found that their materials were not up to the same standard as those of Ruberoid and Callenders.

DIY

Homebase Limited

6.92. Homebase did not wish to make any representations either for or against the merger.

Wickes Building Supplies Limited

6.93. Wickes said that it did not have any concerns about the merger. It did not expect Ruberoid to take advantage of the situation as there was little room for manoeuvre and Wickes would fight it if it did. It would, if anything, expect to find efficiencies in a larger group. However, it might take a different view if its presence in the roofing market were bigger. If it were a smaller customer of Ruberoid, then Wickes said that it would be even more comfortable because it could go elsewhere more easily.

6.94. Wickes said that generally it had limited information on the roofing industry as it traded in a big way in a small sector, ie the RMI sector and the smaller end of the building industry. The customer base was the grey economy; these were small businesses of one to two people with turnover around the VAT registration level. The larger contractors went to builders' merchants because they were able to get discounts and credit. The larger builders had direct contracts with manufacturers and would only come to Wickes in an emergency. Wickes believed customers would go to it rather than to builders' merchants or a roofing distributor because of price and convenience, and the fact that Wickes had longer opening hours than builders' merchants and cheaper prices. Wickes dealt with customers on a cash-only basis, with no accounts. It had no contracts, only goods purchase agreements. It did not stock any torch-on felts because its customers would not have the necessary tools.

6.95. Wickes said that it stocked seven lines of felt, one underslating felt, and that DPCs were bought from a completely different company. All its products were own-label. The felt lines were: shed felt (applied with tacks), rag felt, tufglas and self-adhesive high-performance materials.

6.96. Wickes had dealt with Ruberoid for a number of years, but did not have a business relationship with Marley. It had an exclusive arrangement with Ruberoid. Wickes said that, because its aims were to sell almost all products on an own-label basis and to have only one supplier per product, it was essential to have a good long-term relationship with its suppliers. This certainty applied to its relationship with Ruberoid. Price was not the only reason for selecting a manufacturer: quality, availability and technical back-up were also major criteria. Availability was important because the number of lines stocked by Wickes was only one-tenth that of its major competitors. However, when Wickes found the right supplier, it said that it would look for the best possible prices from it.

6.97. Wickes said that it took 7 to 8 per cent of Ruberoid's business in the traditional felt market. Also Ruberoid added to Wickes' reputation, and it was an efficient business for Wickes. It did not have trading relationships with other UK suppliers (Marley, Vulcanite, Chesterfelt and Rose), and apart from Marley there would be the question of whether they could supply the volume for Wickes.

6.98. Traditional felts were a good product to stock, because they brought in customers who would then buy other products. Wickes believed that if it did not stock these felts, customers would go elsewhere and they would buy other products as well.

6.99. Wickes said that if prices in the market generally increased it would follow them, if they were based on proven raw material cost increases. There was no growth through inflation (less than 1 per cent) and it could not pass price increases on to customers. If all prices were increased, Wickes said that it could sustain its current pricing levels by importing product. Wickes believed that, if the price moved sufficiently in the UK, foreign manufacturers would be eager to get into traditional felts. It said that it sourced other products from mainland Europe, and commented that the supply chain from Western Europe was not difficult but there was the added transport cost.

6.100. On costs of sourcing elsewhere, Wickes said that it rarely changed suppliers. It placed value on a supplier's understanding of the business, its research and development and its willingness to introduce new products in Wickes' brand. It was not worth having to look abroad. If, however, it did decide to change suppliers, the pure cash costs of doing so would be low (slightly higher if it were to import). It would expect Ruberoid to continue to supply it until stocks from a new supplier arrived.

6.101. Wickes said that it had not noticed any change in the way Ruberoid operated following the takeover by IKO. The flat-roofing sector in the UK was shrinking but Wickes' share was healthy. It said that the overall market was in decline, but that the RMI market was buoyant. The roofing market was price competitive, and Wickes did not believe that price fixing took place.

6.102. Wickes said that it accounted for less than 8 per cent of Ruberoid's sales. As such, it had some buyer power, but this was limited because there were few other suppliers of sufficient size to be an exclusive supplier to Wickes. It therefore could not lightly threaten to take its business elsewhere. It would aim to get price reductions, but only if it felt it had grounds for doing so, for example if a competitor were selling products more cheaply.

6.103. Wickes said that there was little research and development in the roofing market. However, the products were still high-tech and needed technical support. Ruberoid provided technical support, for example by providing a telephone helpline the number of which was published on Wickes' instructional leaflets. Wickes sold to general builders or first-time customers who relied on it for knowledge about the use of the product. It said that the lines of felt product were evenly split by sales value (more of the cheaper rag-based products sold by volume). The trend was for marginal changes and the best product was three times the retail price of the lowest, per metre. As felt was a 'must have' product for builders, Wickes said, it was vital that it had it available from stock. The rag-based product was unique to the UK market. Wickes said that it was considering with Ruberoid whether to introduce 'torch-on' products as this was a growing area, but it would need more space and equipment than the 'pour and roll' or self-adhesive it sold at present. There were no plans for Wickes to go down this route in the short term. Wickes added that builders would normally specify the type of roofing material used, as customers generally did not have sufficient knowledge of the subject.

Machinery manufacturers

Maschinenfabrik Reiser GmbH

6.104. Maschinenfabrik Reiser GmbH (Reiser) told us that in its opinion there was a constant trend in the market for flat-roof coverings, pitched-roof underlinings and DPCs. However, it thought this depended on the economic situation. It told us that the cost of a new production line would be between £1.5 million and £4 million, but it was difficult to estimate the price for second-hand equipment as this would depend on a lot of factors. Unless there were an insolvency or closure of a business it would be very difficult to buy second-hand machines. It said that the demand for new machines in the UK and Europe was not so great as the demand for the modernization of machinery. Reiser said that, as a manufacturer of machines and production plants, it did not carry out any market analysis and therefore could not evaluate the level of spare capacity in these markets.

Reichel & Drews Inc

6.105. Reichel & Drews Inc said that, in assessing recent and future trends, the European market for bituminous roofing materials must be separated into Western and Eastern Europe. It told us that the trend in Western Europe was stagnating and/or slightly increasing. There was an overcapacity of standard and torch-on roofing production except for special materials in terms of design or performance for special applications such as for environmental reasons. The present and future trend in Eastern Europe was showing increasing figures for standard and torch-on roofing due to the general demand for building quantity and quality.

6.106. It told us that the cost of a new production line would be between £1.5 million and £4 million. It was difficult to estimate the cost of second-hand equipment due to uncertainty in assessing the state of the equipment and related costs of moving and upgrading it to meet the required production performance. Complete second-hand production lines in reasonable condition were not available, except for production line modules.

6.107. Its view was that in Western Europe there was a need not for new production lines but for the modernization and upgrading of existing machines. In Eastern Europe there was a need for both new production lines and modernization and upgrading. Reichel & Drews Inc did not have information on spare capacity other than what was reflected in the general trends it had described.

Trade associations

Builders Merchants Federation

6.108. The Builders Merchants Federation wrote on behalf of a prominent member of the federation who objected to the merger. It said that the IKO group would have a stake in three of the four major UK manufacturers of bituminous flat-roof coverings, pitched-roof underlinings and high-performance DPCs. This could restrict competitiveness of these brands in the marketplace. Should these companies decide to make global decisions about pricing, this could lead to falsely high prices or, conversely, lower prices, as they tried to squeeze out the opposition.

Flat Roof Alliance

6.109. The Flat Roof Alliance said that the new ownership of the acquired companies did not appear to have had any adverse effect on the competitive attitude between them. In the event that some central policy-making were to occur, there would be sufficient alternative suppliers in the UK (for example, Marley and Chesterfelt), and an ever-increasing number of imported products to prevent any domination in the marketplace. Should purchasers, at some point in the future, see the four companies as a group, they might look beyond them for competition; this might affect the UK manufacturers' share of the market, but not the consumers' access to competitors' products and prices.

The National Federation of Roofing Contractors Limited

6.110. The National Federation of Roofing Contractors Limited said that the CC should ensure that sufficient manufacturing capacity for built-up felt roofing systems should continue to exist in the UK to provide competition. There was a danger, otherwise, of dependence on imports.

Others

British Board of Agrément

6.111. The British Board of Agrément, in partnership with government, assesses and, if appropriate, issues certificates in respect of materials, products, systems and techniques of an innovative character for use in the construction industry. The British Board of Agrément said that, as a result of the merger, it would expect to see product rationalization take place in the more traditional product ranges. The merging of the various companies would leave Marley as the only major source of competition in the UK.

P A GEROSKI *(Chairman)*

R D D BERTRAM

N GARTHWAITE[1]

R FOSTER *(Secretary)*

13 March 2001

[1]Subject to his supplementary note following Chapter 2.