

6 Views of third parties

Contents

	<i>Page</i>
Introduction.....	97
Competitors.....	97
Anglo Felt Industries Ltd.....	97
Ball & Young.....	97
C M Kelly Ltd.....	97
Gaskell Textiles Ltd.....	97
G Ratcliffe & Sons (Felts) Ltd.....	98
Stikatak Ltd.....	98
Wholesalers and distributors.....	99
Allied Furnishing Supplies Limited.....	99
Associated Independent Stores Ltd.....	99
C W Jones (Floorings) Limited.....	99
Headlam Group Plc.....	99
John Doe.....	100
K J Flanagan & Co Ltd.....	100
Lecaflor Salesmark Limited.....	100
Solent Wholesale Carpet Company Ltd.....	101
The Floorwise Group Ltd.....	101
W Forrest Rugs Ltd.....	102
Retailers.....	102
Allders Department Stores Limited.....	102
Allied Carpets Group plc.....	102
Carpetright plc.....	103
Floor Coverings International (UK) Limited.....	103
John Lewis plc.....	103
The Trago Mills Group.....	104
Carpet manufacturers.....	104
Adam Carpets Limited.....	104
Cavalier Carpets Ltd.....	105
Dutton Carpets Ltd.....	105
Georgian Goodacre Limited.....	105
Greenwood & Coope Ltd.....	105
Hugh Mackay Carpets Limited.....	105
Leigh Spinners Ltd.....	106
Scotmat Carpets.....	106
Scott & Fyfe Limited.....	106
Stoddard International PLC.....	106
The Wilton Carpet Factory Limited.....	106
Victoria Carpets Limited.....	107
William Pownall & Sons Ltd.....	107
Associations and unions.....	107
Amalgamated Engineering and Electrical Union.....	107
Contract Flooring Association.....	107
National Institute of Carpet & Floorlayers.....	107
The Carpet Foundation.....	107
Councils.....	108
Dumfries and Galloway Council.....	108

Others.....	108
A supplier of carpet accessories.....	108
Don & Low Ltd.....	109
Fermacell (Fels Werke Gmbh).....	109
Industrial Latex Compounds Ltd	109
J & D Wilkie Limited	109
Janet Anderson MP	110
Lien Huat Alliance SDN BHD.....	110
Russell Brown MP	110
The Associated Carpet Group Ltd.....	110
Vincents (Norwich) Ltd	111

Introduction

6.1. We invited views from carpet manufacturers, underlay manufacturers, wholesalers and distributors, retailers and appropriate associations and unions.

Competitors

Anglo Felt Industries Ltd

6.2. Anglo Felt said that it was in favour of the proposed merger as it might reduce surplus capacity in the industry.

Ball & Young

6.3. Ball & Young told us that it manufactured sponge underlay and PU. Its main wholesale customers (70 per cent of Ball & Young's business) were MCD Headlam. 30 per cent of its business went direct to retailers. In terms of market share Duralay had about 43 per cent, Gates about 31 per cent and Ball & Young 16 per cent of the underlay market. Duralay and Gates had always been highly competitive.

6.4. Ball & Young said that it was concerned by the merger, which would create a large conglomerate. Duralay and Gates would also have a monopoly in gripper production. Gripper could be imported from the USA, although it was less competitive in terms of price.

6.5. Ball & Young was not concerned about metal edgings, as there were a number of manufacturers apart from Duralay and Gates, such as Stikatak, Morley and European manufacturers. Imports of underlay were not common and underlay from Malaysia, especially sponge made from natural rubber, had in the past been of an inferior quality to that produced by UK manufacturers. Underlay was a competitive market and the price of underlay had fallen by one-third in the past four to five years. Overall sales were not in decline. However, there was a concern that they might, firstly, because of the increased use of laminate, which required a different (lower-margin) type of underlay and, secondly, because felt-backed carpet (which did not require underlay) was being imported from Belgium. These had impacted more heavily on Duralay than on Ball & Young.

6.6. Entry into underlay manufacture by carpet manufacturers was unlikely as the financial incentives were not present. Customers had buyer power; roughly 60 per cent of sales were to wholesalers. Independents tended to be represented by buying groups. Ball & Young thought that both Duralay and Gates had spare capacity. Duralay and Gates might be able to raise prices following the merger or they might reduce prices to make competition more difficult. Ball and Young told us that it would have to decide how to respond to price increases by the merged company if and when those took place. It said it might raise prices, maintain the status quo or even reduce prices to maintain market share.

C M Kelly Ltd

6.7. C M Kelly Ltd said that it had grave reservations about the merger of Gates and Duralay. Their combined market share gave them such a dominant position in both marketing and production as to make effective competition less likely.

Gaskell Textiles Ltd

6.8. Gaskell told us that it manufactured about £8 million of underlay and ancillary products. Felt and crumb were its main products. Gaskell had recently invested over £1 million in machinery to allow it to manufacture crumb. Gaskell said it believed that the marketplace was large enough for another player. Prices in the underlay market were relatively static and possibly on a downward trend. Gaskell said that it currently had spare capacity.

6.9. Gaskell thought that the merged company would have about 75 per cent of the market. Gaskell told us that the merged company would certainly want to attempt a price increase but, in its view, the market would not allow it. Gaskell said that, if the merger went ahead and the merged company decided to raise prices, then Gaskell expected to be able to increase its share of the market. Gaskell said that it was in ongoing competition with Duralay, Gates, Ball & Young, Balls, Anglo Felt, Ratcliffe's and Rawsons. Imports of underlay were negligible.

6.10. Commenting on the overall 'package' price of carpet, underlay, gripper and other accessories offered by retailers to customers, Gaskell said that it was not possible to go much lower in the specifications for underlay while offering a product that would meet its basic purposes. Gaskell told us that it thought the underlay market was broadly speaking a 'comfortable' one where opportunities for innovation had not always been followed up. Somebody needed to shake it up. Gaskell agreed that, as a company, it had itself been slow to react to market developments.

G Ratcliffe & Sons (Felts) Ltd

6.11. Ratcliffe's said that the number of underlay manufacturers had declined over the past ten years from 14 notable companies to seven or eight. This decrease was attributable largely to the lack of profitability in the sector. Usually when a manufacturer stated its intent to leave the market, another would step in and buy some or all of the relevant assets. For example, Gaskell had bought part or all of the underlay concerns of John Cotton (Colne) Ltd, William Grahams (Dewsbury) and Silentlay (formerly part of the Silentnight Group). Cormar Carpets had sold off its underlay concerns piecemeal and another felt manufacturer was currently looking to sell its order book and machinery.

6.12. Ratcliffe's said that, as a consequence of this contraction, it had a much clearer picture of whom it was competing with. The one company that had made most acquisitions, Gaskell, did not appear to have become more competitive. Ratcliffe's said that if Duralay acquired Gates's underlay interests, that would not affect Ratcliffe's and price rises as a result of the merger would not concern it. However, as nearly all carpet gripper sold in the UK originated from either Duralay or Gates (including Gates's subsidiary, Gripperods), Ratcliffe's was concerned that the supply of this accessory to the flooring trade could become linked to the supply of underlay with a better price being obtained for gripper if underlay was ordered at the same time.

6.13. Ratcliffe's said that there were still too many underlay manufacturers for the size of the market, which was declining due to the popularity of hard floors and the availability of felt-backed carpets. All manufacturers needed higher prices for their products and the main constraint upon this was competition. The possibility of importing goods did not appear to be a constraint on UK prices. Ratcliffe's said it imported certain products and did not undercut similar UK-manufactured alternatives.

Stikatak Ltd

6.14. Stikatak told us that it manufactured accessories for carpets and laminate floors: mainly aluminium floor edgings, adhesive tapes and some paper underlay. It also produced some underlay for export. Its largest customer was B&Q. Stikatak's main competitors were Gripperods (part of Gates), Duralay, and Ball & Young. Stikatak's annual turnover was about £12 million. The largest producer of gripper was Halex Corporation, an American company. China and India were also beginning to produce gripper.

6.15. Stikatak said that Duralay and Gates were competitors. Stikatak said that the price of gripper had declined over the last five years. Stikatak thought that, if the merged company were to increase the price of underlay, this was likely to lead to imports from the Far East. There had been and continued to be a downward pressure on price levels of both gripper and underlay.

Wholesalers and distributors

Allied Furnishing Supplies Limited

6.16. AFS said that it traded in the South-East of England and dealt with a high volume of rubber underlay, of mid to top range. AFS was a customer of Gates but found that it was often undercut by Duralay. Following the merger, such competition might diminish, but this could have either a positive or a negative effect. AFS might be able to continue to sell at a higher price and better margin, or the increased volume produced by a merged company might lead to reduced prices and a reduced AFS margin. It might also be that the merged company would wish to bypass distributors and sell direct.

6.17. It was possible that production of certain items might be moved to different factories, so that, for example, all gripper was made at Gates's factories and all metals at Duralay factories. This could lead to supplies being dependent on other purchases, giving some customers an advantage. Although it had been rumoured that the two companies would be run independently after the merger, this had not proved to be the case in other similar situations in the past.

6.18. AFS said that it could not see any competitor successfully undercutting the prices of the merged group. Ball & Young was the only competition, particularly on lightweight underlay, but it would be unable to compete with the merged company. It was possible that larger groups such as Headlam Group plc would be able to resist price increases following the merger but that would leave the independents such as AFS in a difficult position. AFS would not have such a good bargaining position, unless it sought to buy through a group, for example, the Wholesale Flooring Distributors Association.

6.19. The barriers to entry to the market after the proposed merger would mean that only a big player could make any impact. AFS said that it could not think of any company likely to fill this role. AFS said that excess capacity was not an issue at present.

Associated Independent Stores Ltd

6.20. AIS said that it was the largest non-food buying group in the UK. It negotiated on behalf of various independent stores and retail specialists. AIS was concerned that the merger would leave a near monopoly in the supply of certain types of underlay in the UK with Ball & Young being the only significant remaining competitor. There was little evidence, in terms of competition, of any importing of underlay into the UK apart from that specially manufactured for use with laminate flooring.

C W Jones (Floorings) Limited

6.21. C W Jones (Floorings) Limited said that, if the proposed merger were agreed, Duralay's only major competitor would disappear. This would result in an inevitable price increase on underlay, gripper and metal edgings. The price increase would reduce the ability of the smaller manufacturers to compete. It considered that the merger should not be allowed to proceed.

Headlam Group Plc

6.22. Headlam Group Plc said that it did not have any objection to the proposed merger and did not believe that it would have an adverse effect on the market in which it operated.

6.23. Headlam said that competition was principally from Ball & Young with regard to underlay and Stikatak and Morley for metal edgings. While there were some instances of imported underlay products, the relatively low value of underlay made shipping costs disproportionately high.

6.24. Headlam said the underlay market tended to be competitively priced through both manufacturer and distributor channels. There had been new entrants to the market over the last 10 to 15 years which suggested there was not a significant barrier to entry. Headlam said that, even following the proposed merger, there would still be significant competition within each product category. The existence of spare capacity in the industry was likely to lead to a more competitive price structure. Future

trends in the underlay market were likely to be affected by the introduction of hard flooring, such as wood and laminate.

6.25. Headlam hoped that the proposed merger would lead to further production efficiencies and product development which, in turn, should lead to the public receiving an improved product at a more competitive price.

John Doe

6.26. John Doe said that it was very much in favour of the merger.

K J Flanagan & Co Ltd

6.27. K J Flanagan & Co Ltd (Flanagan) said that it obtained its underlay mainly from the UK, but also from Europe. Previously it had bought a limited amount of underlay from the USA and Malaysia. Flanagan said that the price of both underlay and gripper was competitive. Underlays competed with each other and were substituted on price.

6.28. Manufacturing competitors should have every incentive, as now, to gain more volume and, if prices were increased, past experience showed it would have both the ability and incentive to undercut. Flanagan said it believed that potential imports, especially of PU, would constrain UK prices. Both Duralay and Gates were afraid of the threat of PU.

6.29. Flanagan said that prices in the carpet underlay market had fallen because of the use of laminates, cheap underlay arriving from Europe and the introduction of felt backed carpets. There was a gradual move towards PU underlays because they were light in weight and more 'fitter friendly'. A potential benefit of the merger was that a bigger company should be able to resist raw material price increases.

Lecaflor Salesmark Limited

6.30. Salesmark said that the two largest carpet retail chains in the country were Carpetright and Allied Carpets. At present, their accounts were with Gates and Duralay, respectively. Carpetright and Allied Carpets claimed in excess of 50 per cent of the retail market. Duralay also supplied one of the largest distribution groups in the country, Floorwise. Floorwise bought approximately one-quarter of Duralay's turnover and enjoyed beneficial terms because of its buying power. Until now Floorwise had not bought from Gates because of its ties with Duralay. However, a merging of Duralay and Gates would give Floorwise access to Gates's products, thus increasing its dominance of the distribution trade.

6.31. The only other manufacturer of any size was incapable of handling these large accounts. The capital cost of a new business was prohibitive and would be a poor investment in a market that was already over producing.

6.32. [

Details omitted. See note on page iv.

] Salesmark told us that it received a rebate from Duralay of up to 6 per cent, and this had now effectively become part of its margin. Salesmark said that, until very recently, the rebate had been volume related so that it had not been economically viable to switch a proportion of its purchases to another supplier.

6.33. There were three major manufacturers of sponge carpet underlay in Great Britain, supplying 97 per cent of the market. This underlay was used in 75 to 80 per cent of new domestic carpet installations. If Duralay and Gates merged, then Duralay would have 86 per cent of manufacturing and distribution. Duralay and Gates had been strong competitors over many years and the merger was bound to lead to higher prices and less choice for consumers. The retail carpet trade made a large profit from carpet underlay which subsidized the poorer margins generally made on carpet. However, retailers were

likely to pass on increases despite the huge margin they made and this would lead to higher prices in the shops. The merging of Duralay and Gates would also create a dominant force in the supply of carpet accessories such as gripper. At present Duralay and Gates supplied around 97 per cent of the market and there was only one other tiny manufacturer in the country.

6.34. Salesmark said that imported underlay was not an attractive option as its retail customers placed orders for delivery between 24 hours and three days later, but delivery from Malaysia would take four to six weeks and as such very large stocks would need to be held to ensure continuity of supply.

Solent Wholesale Carpet Company Ltd

6.35. Solent Wholesale Carpet Company Ltd (Solent) told us that, in the past, some of its competitors, which were also Duralay's biggest customers, had put pressure on Duralay not to deal with Solent. Since then, Solent had found it almost impossible to buy products at competitive prices from Duralay. It had managed to replace this business with goods from two other suppliers, one of which was Gates. It was therefore concerned that if Gates came under the control of Duralay it could find the same situation unfolding.

The Floorwise Group Ltd

6.36. The Floorwise Group Ltd (Floorwise) said that it was a buying and marketing group of 18 independent distributors of underlays and carpet accessories, with 20 depots in the UK, one in the Republic of Ireland, one in the Netherlands and one in Israel. Its current purchases of carpet underlay and gripper were almost exclusively from Duralay, and were in excess of £8 million a year. It said that the market for underlay was the UK.

6.37. Floorwise estimated that sponge underlay accounted for about 80 per cent of the underlay market. Competition between the main manufacturers, Duralay, Gates and Ball & Young, was severe. Duralay and Gates probably had 90 per cent of the sponge underlay market between them, either direct to retailers or through their distributors. [

Details omitted. See note on page iv.

] Floorwise did not believe that it could replace its existing volumes from non-Duralay/Gates sources.

6.38. Sponge underlay was seen as the best value for money. Crumb competed on quality, rebond on lightness, and foam on price, but the competition was not great. Floorwise said that it did not believe that imports would satisfy its needs as an alternative source of supply but said that larger retailers such as Allied Carpets and Carpetright, which have a smaller range of products and which had warehousing and distribution facilities, might consider it. The potential sources were in the USA and Malaysia but both were remote, and carriage costs for such a bulky, heavy and inexpensive product would be significant. Moreover, the quality and consistency of production from Malaysia was in doubt, as was the willingness of US manufacturers to produce the specifications which the UK market required. The main problem, however, was logistical. Underlay was a fast-moving and bulky product, and most wholesalers turned over their stock frequently in order to justify the prices at which they had to sell. The prospect of relying on a container of underlay being delivered every day from Malaysia or the USA was not a reassuring one.

6.39. Floorwise said that it was paying less now for underlay in real terms than five years ago. Floorwise did not believe that large price increases would be imposed immediately following a merger. It was more likely that they would take place over a period of time. The ability of customers to resist a price increase would depend on the attitude of Ball & Young. It seemed to Floorwise that it would be in Ball & Young's interest to accept any reasonable increase in price. However, for any large customer such as Floorwise, Ball & Young would only be able to supply a small part of its requirements.

6.40. Floorwise said that the investment to enter the market was significant as was the expertise and the risk. There was currently excess capacity, although Floorwise could not estimate the quantity. This led to severe competition, especially at quiet times of the year in what was a seasonable trade. Excess capacity might be taken out of the market as a result of the merger, enabling machines to run at full capacity and costs to reduce.

6.41. Crumb underlay was currently manufactured by Duralay and Gaskell. Gaskell was new in the market and Duralay already had a large measure of control over crumb underlay. Prices were higher than for sponge underlay, but the product was superior. However, it was difficult to convert customers from sponge to crumb.

6.42. Rebond underlay was dominated by Ball & Young, but Gates had now entered the market with significant capacity. As the number of manufacturers would remain the same, Floorwise did not believe the merger would have any significant effect on the situation. Rebond competed with the other underlays because of its lightness, although it was more expensive than sponge. Duralay, Gates and Ball & Young were not involved with felt underlay. The market size was small, predominately contract as opposed to domestic, and gradually shrinking. Duralay was the main foam underlay producer, with only Corlay as a competitor. However, the market was small and Floorwise did not believe competition would be affected by the proposed merger. It believed that sponge, crumb, foam, PU and felt underlays were all substitutable although quality perceptions and price differences made this difficult.

6.43. Duralay and Gates were the only manufacturers of carpet gripper in the UK apart from Morley whose capacity was small. The only other competitor was Roberts of Holland, which imported UK standard gripper from the USA. This was competitive in terms of price at present but would become less so if sterling were to weaken. Floorwise did not believe that the proposed merger would have a significant effect on competition in the carpet metals market.

W Forrest Rugs Ltd

6.44. W Forrest Rugs Ltd said that it had no objection to the proposed merger.

Retailers

Allders Department Stores Limited

6.45. Allders Department Stores Limited (Allders) said that, if the merger proceeded, Duralay would control 60 to 70 per cent of the UK underlay market. With that level of control, the merged company would have the market strength to impose national price increases which Allders would have no alternative but to pass on to its customers. There would be a similar position in the UK metals market (edgings and gripper accessories).

Allied Carpets Group plc

6.46. Allied Carpets said that it considered the geographical scope of the markets both for underlay and gripper to be the UK. Apart from Duralay and Gates there was little competition, as far as Allied Carpets was concerned, within these markets. The only realistic alternative source of underlay was Ball & Young, which did not have the capacity to respond to demand for significant supplies. As the merger of Duralay and Gates would combine the two companies providing the major competition within the carpet underlay market, there had to be concern about a potential abuse of power by the combined entity. Allied Carpets said that it was not concerned about competition in gripper and metal edgings because there was greater choice of supply of these products and the production processes were much simpler.

6.47. Allied Carpets said it believed that there were few alternatives to the current products Allied Carpets purchased from Duralay and which other competitors purchased from Gates. At present there were no realistic competitors to Duralay and Gates in the UK market. A new competitor capable of supplying significant demand would need to take the risk of investment to give it the capacity to compete within the underlay market.

6.48. While there was the possibility of importing gripper and other ancillaries which could in future be a constraint on UK prices, Allied Carpets found it difficult to believe that there was a similar potential for importers to bring in underlay and to remain competitive in pricing terms. This was due to the weight and volume of underlay and the costs of import. Allied Carpets said that it had imported a waffle sponge underlay from the USA during the 1980s (when no sponge was manufactured in the UK) and would

consider doing so again if the customer demand were to exist. Allied Carpets said that the price of underlay would need to increase significantly before it would consider importing from the USA or Europe. Allied Carpets was doubtful about the effectiveness of any resistance, even by large purchasing groups, to price increases following the merger. As there was no available volume supply outside Duralay and Gates, anyone entering the marketplace would be required to incur quite high costs (relative to the market and its profitability) to become a viable alternative supplier. Allied Carpets said that in real terms the price of gripper and underlay had fallen during the last five years.

6.49. Allied Carpets said that it did not see significant excess capacity in the industry at present but, if this did become apparent, then completion of the merger would make it much more likely that the other competitors would be forced out of the market.

6.50. As the carpet market in the UK was essentially flat, and had contracted in recent years, Allied Carpets assumed that the carpet underlay market had responded similarly. However, there was opportunity in other flooring markets. There was currently growth in volume in some smooth flooring, for example wood and laminate flooring; these products required their own form of underlay and damp-proof membrane. This might offer alternative production for existing underlay producers.

Carpetright plc

6.51. Carpetright said that it purchased underlay and accessories from Gates. It did not currently purchase supplies from Duralay, although it had done so in the past. At present Carpetright was dependent on one supplier with two manufacturing facilities. If the two companies combined, it would have the reassurance of knowing that, if one of Gates's manufacturing outlets had to cease operations, there would be several others to which production could be switched, thus ensuring continuity of supply.

6.52. Carpetright said that it believed it was one of Gates's largest customers. The volume of underlay and accessories it purchased assisted Carpetright in obtaining competitive prices. Even if the two organizations combined, Carpetright would still be a sizeable customer and it believed that it would be able to maintain favourable trading terms without having to approach other suppliers. Carpetright believed that there were adequate alternative sources of supply from outside the UK. Carpetright said that the merger of Duralay and Gates would be beneficial as their combined resources would provide greater assurance of supply without unduly increasing costs.

Floor Coverings International (UK) Limited

6.53. Floor Coverings International (UK) Limited said that it opposed the merger. Although Duralay and Gates controlled 80 per cent of the UK underlay market, competition between the two was intense, ensuring that small companies were able to purchase underlay products at relatively competitive prices. It believed that the merger would create a near monopoly situation and that prices would rise significantly as a result. This would have a greater impact on smaller businesses, bearing in mind the economies of scale and the particular arrangements that larger competitors would be able to command.

6.54. It also believed that, as a consequence of the merger, price increases in the wood gripper market would be passed on to the consumer and that smaller companies would be edged out of the marketplace by larger competitors.

John Lewis plc

6.55. John Lewis said that it owned 25 department stores and had built up a substantial business in the sale and fitting of carpets. If the proposed merger went ahead, the merged group would account for 80 per cent of its underlay business. This was not an outcome John Lewis would welcome. There were no other UK suppliers of rubber underlay of an equivalent quality, while the alternatives of crumb or felt underlay were separate products with different characteristics.

6.56. John Lewis said it was concerned that, whereas it now negotiated with two competing businesses, following the merger its negotiating position would be weakened. The risk was that John Lewis

would be unable to resist increases in the prices it paid for underlay which would in turn have to be passed on to the consumer. Whatever the current intentions of the parties to the merger, and whatever assurances might now be given, it could not be in the public interest for a single group to have such a powerful position in the market.

6.57. The checks on potential abuse of that market power would be few. The costs of entry into such a business were likely to be relatively high and, in the face of such a dominant competitor, the prospects of success correspondingly low. While importation from abroad might be possible, the cost of transporting such a bulky, low-value product meant that there would be scope for a substantial price differential to open up before imports could constrain UK prices. John Lewis said that security and continuity of supply were particularly important and it could not risk having to rely on a container of underlay being delivered every day, with the danger of falling stocks if nothing were delivered for some days. John Lewis said that it was hard to see what safeguards, short of direct price controls, could prevent the merger operating against the public interest.

The Trago Mills Group

6.58. The Trago Mills Group (Trago) said that it had a turnover of around £9.4 million a year. However, as one of the country's principal discounters, it had concerns about the monopoly that would be created if Gates were acquired by Duralay. The latter already had a commanding position in the market and possibly viewed Gates as a hindrance that prevented it from achieving the sales prices that might otherwise be possible. Trago said that it had already seen a degree of consolidation in the accessories sector where several small but highly-competitive companies had been swallowed by Gripperods, which in turn was acquired by Gates.

6.59. Trago said that there was little doubt that the carpet underlay market was driven by price, especially during a period of stagnation, as currently, when broadloom carpet yardage had remained static and even dropped a little in recent years. In such a trading climate, competition between the principal underlay manufacturers was so intense that retail prices remained at a record low. Trago said that it was not in a position to give an opinion as to whether the merger would ultimately be to the long-term benefit of the consumer, as Gates might be courting a takeover to aid its ailing profitability. If the merger led to a price increase of over 10 or 15 per cent, Trago would look for alternative sources outside the UK.

6.60. The question of smooth-edge carpet gripper was rather more vexing as Trago understood that there were only a small number of factories with machines to produce it. There already appeared to be a cartel in operation, as the few participants offering the product did so at exactly the same price. However, gripper remained an inexpensive commodity, still costing in the region of £10 to £12 a box of 500-foot Standard Pre-Nailed.

6.61. Competition between the various metal edgings manufacturers and distributors had been at its peak from the early to mid-1990s. Against the odds, a considerable number of smaller distributors had survived and continued to offer product at highly-competitive prices, preventing the exploitation that would have occurred had a number of them been put out of business during the price war. Trago said that no buyer should encounter difficulty sourcing product competitively with a number of players remaining in the field.

Carpet manufacturers

Adam Carpets Limited

6.62. Adam Carpets Limited (Adam Carpets) said that it could see no problem with the merger as competition in the UK carpet industry was dominated by carpet imported from Belgium, Holland and Denmark. If a company in the industry, whether making carpet or underlay, attempted to misuse its position, it would soon be undercut by competitors from Europe.

6.63. Adam Carpets said that the major problem in the industry was that the retail side of the business was dominated by a small number of big groups. If these groups were to be matched, the manufacturing side of the industry needed to coalesce into larger units.

Cavalier Carpets Ltd

6.64. Cavalier Carpets Ltd said that it did not have sufficient knowledge of the underlay market to judge the effect of the proposed merger. However, Duralay and Gates appeared to be similar companies with similar rubber-based products in a market that exhibited little competition.

Dutton Carpets Ltd

6.65. Dutton Carpets Ltd said that it saw no reason for concern with regard to the proposed merger between Duralay and Gates.

Georgian Goodacre Limited

6.66. Georgian Goodacre Limited said that it did not have any objection to the proposed merger between Duralay and Gates.

Greenwood & Coope Ltd

6.67. Greenwood & Coope Ltd (Cormar Carpets) (Greenwood & Coope) gave us its views on the consolidation of the rubber underlay market created by the merger of Duralay and Gates. In many aspects of the UK carpet trade there was a chronic overcapacity, created in part by the low barriers to entry. There had been talk for many years of the need to consolidate. Unfortunately the opportunity to consolidate rarely appeared. However, the fire at the Duralay plant at Helmsore created a window of opportunity.

6.68. One effect of the overcapacity was that prices were constantly being eroded and quality reduced. Greenwood & Coope did not believe the consumer was best served by a market characterized by constantly falling prices and diminishing quality standards. If any consolidation had occurred within the industry, it had tended to be at the retail end. Here the number of independents had fallen significantly over the years, while the major groups which could wield significant purchasing power had expanded. Thus the balance of power had tipped more in favour of the major retailers. The creation of a single major rubber underlay manufacturer might redress some of this balance.

6.69. Consolidation might lead to a modest increase in prices to the retail outlets. If the price of underlays did increase by a significant level then it was likely that many of the small independent felt manufacturers would increase their capacity. In fact, many had plants which were not operating because the present low prices were a disincentive to manufacture. Felts made from materials other than rubber also faced the same overcapacity problems. Until supply and demand became more balanced, the underfelt market would be one in which volume was produced to try to drive down costs. However, the industry was unprofitable and unstable and at some stage jobs or companies would be lost. Greenwood & Coope said that it had stopped manufacturing underlay itself but now used the excess capacity available with other underlay producers.

6.70. If the merger merely created one large company with the same capacity, then little would be gained by the merger. However, if capacity were removed from the market, then consolidation could be achieved in a controlled manner. Greenwood & Coope said that it had closed its underfelt operation on 31 March 2001 because of excess capacity and the poor environment for investment. Greenwood & Coope told us that the market for both carpet and underlay was diminishing.

Hugh Mackay Carpets Limited

6.71. Hugh Mackay Carpets Limited (Hugh Mackay) said that the proposed merger would have little or no effect on it as it manufactured carpets and rarely got involved in the purchasing or fitting of rubber underlay. However, Hugh Mackay's knowledge of the industry and the stranglehold that Duralay and Gates had on the underlay market led it to object to the merger. Hugh Mackay believed the two

companies controlled approximately 80 per cent of the rubber underlay sold in the UK. Any merger would undoubtedly lead to significant price increases as the new company would have a monopoly.

6.72. The argument might be put forward that underfelt offered competition but that was not the case, as Duralay and Gates dominated the stick-down market and underfelts were not used in the same way as rubber underlay. Hugh Mackay said Duralay and Gates had no real competition. The barriers to entry to the industry were high because of the cost of plant and few competitors were likely to enter the market. Hugh Mackay considered the merger to be against the public interest.

Leigh Spinners Ltd

6.73. Leigh Spinners Ltd said that it had no objections to the proposed merger between Duralay and Gates.

Scotmat Carpets

6.74. Scotmat Carpets said that, in the event of a merger, the underfelt business would be controlled by the merged group. The combined market share for underfelts of Duralay and Gates would be in excess of 70 per cent. If allowed to go ahead, the merger would not be beneficial to the consumer.

Scott & Fyfe Limited

6.75. Scott & Fyfe Limited (Scott & Fyfe) said that it was in favour of the proposed merger because the resultant company should be stronger and therefore more competitive against the threat of imported products. Scott & Fyfe said that, as a textile manufacturer, it was aware of the plight of manufacturers generally in the UK. Its industry had suffered badly as a result of cheap imports damaging both its customers' and suppliers' business.

6.76. The key factors causing the damage had been the strength of sterling and the overcapacity of manufacturing in other countries, which sought to dump their products in the UK. There seemed little prospect of respite from these factors and therefore it was in the hands of UK manufacturers to put in place strategies to counter these factors either by becoming more efficient or focusing on more value added products in niche market areas.

6.77. Scott & Fyfe believed that the merged parties would seek to achieve these priorities. Scott & Fyfe was in favour of the merger and did not think that it would damage consumer interests.

Stoddard International PLC

6.78. Stoddard International PLC said that it had no objections to the proposed merger between Duralay and Gates although, clearly, it would create one very large player in the underlay market in the UK.

The Wilton Carpet Factory Limited

6.79. The Wilton Carpet Factory Limited (Wilton Carpet) said that it manufactured woven carpet for the premium hospitality markets in Europe and North America. It also retailed carpets manufactured by a wide range of UK manufacturers. As a manufacturer of carpet, Wilton Carpet was opposed to the merger, which it believed would reduce the level of competition in product development. Underlay was a critical element in commercial installation and it was important that this sector of the material supply industry continued to develop improved products. The UK-based manufacturers of premium woven carpet were currently bucking the trend in a failing UK textile industry by developing exciting new product styles through the application of technology. Wilton Carpet said that similar progress from the underlay manufacturers was needed in order to complement the developments in woven carpets.

6.80. Wilton Carpet also opposed the merger in its capacity as a retailer selling to consumers, as it believed that the merger would remove any price competition. At present Duralay and Gates were the only two significant suppliers from which a retailer could source domestic underlays. It was essential that competition be maintained in the underlay product area, since this product was installed in almost every house in the UK.

Victoria Carpets Limited

6.81. Victoria Carpets Limited (Victoria Carpets) said that it was a manufacturer of carpet, supplying mainly to the independent retail sector in the UK market and as such bought underlay only infrequently. It did, however, buy underlay for resupply to hotels as part of its export sale of contract carpeting to the overseas hospitality market.

6.82. Victoria Carpets said that its views were perhaps less relevant than those of some of the major UK buying groups and major retailers, such as John Lewis, Allied Carpets and Allders, which were likely to have stronger views on the merger. Victoria Carpets said that the merger was likely to create a strong player in the market, particularly in the area of rubber underlay, which was the most popular area.

6.83. Victoria Carpets said that felt underlay did compete against rubber and, whilst there was still a variety of sources for felt, the bulk of the market was for rubber underlay. There was therefore a risk that the merged businesses would control the supply and price of the product. Import competition was unlikely to affect the position as underlay was bulky and high freight costs made importation relatively unattractive. The proposed merger was potentially damaging to competition and was likely to result in increased prices to the consumer.

William Pownall & Sons Ltd

6.84. William Pownall & Sons Ltd (William Pownall) said that it did not expect the proposed merger to affect it and found it difficult to assess the reduction in competitiveness within the carpet industry.

Associations and unions

Amalgamated Engineering and Electrical Union

6.85. The Amalgamated Engineering and Electrical Union (AEEU) told us that almost one-third of the products manufactured at the Gates plant in Dumfries competed directly with Duralay products. The AEEU said that its members were concerned that they might be disadvantaged by any rationalization that took place as a consequence of the merger. It was clearly in the local public interest that employment was maintained following the merger.

Contract Flooring Association

6.86. The Contract Flooring Association said that it had no objections to the proposed merger.

National Institute of Carpet & Floorlayers

6.87. The National Institute of Carpet & Floorlayers said that it had a membership of about 600 including four or five underlay manufacturers and a few accessory, carpet, vinyl and laminate manufacturers. It said that it had no objections to the proposed merger.

The Carpet Foundation

6.88. The Carpet Foundation said that it would be difficult to envisage any circumstances where its members might be commercially disadvantaged by a merger. As far as the domestic market was

concerned, its members' products were sold by retailers to consumers. It was the installers who fitted the underlay. Carpet manufacturers did not become involved in this process apart from giving generalized advice that good quality underlay was desirable.

6.89. The Carpet Foundation said that there could be some concern if any reorganization in the underlay sector were to lead to any reduction in quality or availability of good quality underlay but that seemed unlikely.

Councils

Dumfries and Galloway Council

6.90. Dumfries and Galloway Council member Mr Michael Thomson said that he was concerned about the proposed Duralay/Gates merger, and in particular about the future fate of the Tredaire manufacturing lines at present located in Dumfries. Dumfries had suffered a decline in significant employers over many years, with the disappearance of many of its core employers. McGeorges & Wolsey was a traditional knitwear manufacturer. Many knitwear products were now sourced from China and only labelled in Scotland. The Carnation Milk Factory, makers of condensed milk and Coffee Mate, no longer manufactured in Dumfries, nor indeed in Scotland. Elopac liquid packaging manufacturers were now working abroad in other countries. The merger could cause the town to lose another such employer.

6.91. If the deal went ahead it could only be a matter of time before Dumfries lost what was a significant contributor to the local economy. Michael Thomson considered that every endeavour should be made to avert the loss of Gates from Dumfries.

Others

A supplier of carpet accessories

6.92. A supplier of carpet accessories said that the UK market had three major producers of underlay: Duralay (40 per cent), Gates (40 per cent) and Ball & Young (20 per cent). With regard to gripper, there were two major producers: Duralay (50 per cent share) and Gates (40 per cent share). The remaining 10 per cent was imports. If the merger were approved, it would remove any form of competition. Of the two main carpet-fitting accessories, Duralay would control 80 per cent of the underlay market and 90 per cent of the gripper market.

6.93. The effects of this within the market would lead to price increases, which would ultimately be met by the public. It would also affect other manufacturers of other carpet accessories such as tapes, adhesives and metals. These were lesser-value items, but were crucial to the daily needs of fitters within the industry. Gripper and underlay were extremely important for fitters. If Duralay gained control of underlay and gripper, the supplier of carpet accessories believed pressure would be applied by Duralay to gain sales of these lesser value items.

6.94. The effects of this would be catastrophic for the wholesalers that supplied fitters with the lesser-value, but crucial, products. The wholesaler would be forced to buy these items from Duralay because, if it did not, it would not obtain supplies of gripper and underlay. This would have a knock-on effect with regard to the manufacturers of these lesser-value products, which would go out of business over a period of time.

6.95. Substitution between products was not practical because the third main player, Ball & Young, which made underlay from different materials and processes, was at full capacity, and only able to service 20 per cent of the market. This share of the market could be increased only through massive investment in plant and square footage. Expansion would take years rather than months, by which time the damage would have been done.

6.96. Prices would increase rapidly, the variety of products would diminish and the quality of service would reduce because there would be no real competition. Any ability of, or incentive for, competitors to undercut such price increases would be removed on:

- (a) *Underlay*: Because the third main player (Ball & Young) was selling a different product and selling it on quality. It was up to capacity and would have no desire or need to undercut.
- (b) *Gripper*: There would be no other UK producer to undercut. Any threat from imports would be removed by shipping costs and therefore would impose no constraint on UK prices.

Customers and purchasing groups could not resist price increases because there would be no viable alternative.

6.97. There were considerable barriers to entry because the cost of an underlay plant was in excess of £1.5 million. The cost of a gripper production line was in excess of £0.5 million. Moreover, the acquisition of expertise necessary to manufacture both products to the required levels of quality was measured in years rather than months. Any excess capacity would be with the merged companies. The merger should therefore be refused for all these reasons.

6.98. The supplier of carpet accessories said that it questioned the motivation of the acquiring company. Approximately four years ago Duralay was the subject of a management buyout. The reality was that a small percentage of the total asking price was raised by the incumbent management. The bulk of the asking price was raised by a venture capitalist group, Cinven. Venture capitalists used such vehicles as investment opportunities. In due course they were sold in the private, or more often the public, sector at a considerable profit. The supplier of carpet accessories said that often any increases achieved through trading were negligible and, while turnover may have gone up through acquisition, net profit had gone down. The supplier of carpet of carpet accessories said that venture capitalists had a short-term view that was not good for the longer-term future of the industry.

Don & Low Ltd

6.99. Don & Low Ltd said that it was not concerned about the proposed merger between Duralay and Gates.

Fermacell (Fels Werke Gmbh)

6.100. Fermacell (Fels Werke Gmbh) said that it had no objections to the proposed merger between Duralay and Gates.

Industrial Latex Compounds Ltd

6.101. Industrial Latex Compounds Ltd (Industrial Latex) said it did not feel that it had sufficient knowledge of the underlay market to comment on the benefits or otherwise of the proposed merger. However, it appeared to Industrial Latex that the underlay market was controlled by the carpet wholesalers and groups like Carpetright and Allied Carpets rather than by a particular underlay producer. Therefore any consolidation among the producers was likely to strengthen the position of the producers vis-à-vis distributors. This was likely to result either in higher prices for the consumer or a stimulus to the development of alternative underlays by new producers, since the entry barriers to the market were quite low.

J & D Wilkie Limited

6.102. J & D Wilkie Limited said the merger would create a very dominant player in the underlay market. It was concerned that the merged company would be in a position to exercise purchasing power over suppliers to an unacceptable degree.

Janet Anderson MP

6.103. Janet Anderson MP (Rossendale and Darwen) said that Duralay was an important manufacturing employer, and one of the few remaining in her constituency, where it had been situated for a number of years. Duralay manufactured various types of carpet underlay and had continued to enjoy an excellent reputation for quality, reliability, customer relations and good employment practice. However, it had been suffering from declining profitability for some time. Despite this, it had successfully retained its workforce. Duralay had various problems including the current popularity of hardwood flooring which had reduced the demand for carpet underlay. In addition, Duralay said that people were more inclined to replace their carpets more often, but less inclined to replace their underlay at the same time.

6.104. The proposed merger with Gates would allow the combined company to reduce costs by sharing overheads. Janet Anderson said that she understood that one concern of the CC might be that such a merger would give the new company a large share of the market, and the CC might consider that this would encourage the new company to increase its prices as it would reduce competition. However, Duralay pointed out that there was a limit to how much people would pay for carpet underlay which was a secondary consideration of customers when purchasing new carpets and it would, therefore, not be in its business interests to increase its prices if the merger were allowed to proceed.

6.105. Janet Anderson said that she hoped that the CC would feel able to look kindly on the merger as it would sustain continuing employment opportunities in Rossendale.

Lien Huat Alliance SDN BHD

6.106. Lien Huat Alliance SDN BDH said that the acquisition of Gates by Duralay might possibly lead to the creation of a company of sufficient strength that it might be able to prevent imports of foreign underlays, for example, by using excess capacity to create low-priced products that acted as barriers to foreign competition.

Russell Brown MP

6.107. Russell Brown MP (Dumfries) said that both Duralay and Gates had production facilities within his constituency and employed in the region of 400 people. He said that he had no concerns over the merger from the point of view of the consumer and on balance would support it but he was concerned about employment. The merging of any function such as sales or advertising might lead to job losses and there was a concern among employees that Gates Footwear, which employed over 100 people in Dumfries, would have no future within the new company. Mr Brown asked the CC to give careful consideration as to whether the merger would have an impact on employment levels.

The Associated Carpet Group Ltd

6.108. The Associated Carpet Group Ltd (ACG) said that it was a voluntary buying group representing 150 independent retailers making arrangements with manufacturers on behalf of its members. ACG members purchased directly from suppliers, making use of the negotiated ACG discounts.

6.109. Both Gates and Duralay had been suppliers to ACG, but a few years ago ACG decided to move its support to Duralay. This decision was made based on the range of products available, pricing, quality of service and marketing expertise. ACG said that many of its members supplied different types of underlay to their customers, for example felt, rubber and combined felt and rubber. Although there was potential substitution between products, most retailers recommended whichever product they thought was most suitable for the location to be carpeted.

6.110. In the past both Gates and Duralay had competed strongly on price and service, and many retailers would interchange their purchases between both companies, depending on the best deals available. ACG assumed that a merger would lead to a rationalization of products and resources, which would bring about improved efficiency and productivity. These savings might, or might not, be passed on to the retailer and result in lower prices to the consumer.

Vincents (Norwich) Ltd

6.111. Vincents (Norwich) Ltd said that it had no objection to the proposed merger of Duralay and Gates.

D P B KINGSMILL (*Chairman*)

A J PRYOR

A M YOUNG

A STEELE

R FOSTER (*Secretary*)

15 October 2001