

# 7 Views of other parties

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## **Introduction**

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

### **H S Baldwin (Stroud) Limited**

7.2. Baldwin, a wholesale photofinisher, said that it needed to use KPCL for certain services and products and would be concerned about the ability of the enlarged group to manipulate internal prices so that they were lower than those available in the marketplace. KPCL was dominant in the key market in which Baldwin operated, and this was of particular concern as KPCL could undercut on price or loss lead in order to squeeze out smaller players. Baldwin said that, while it did not fear competition, it was concerned about the ability of KPCL to abuse its position, and felt that, as a condition of the merger being allowed to proceed, safeguards should be put in place to protect the remaining competition. Baldwin also had concerns regarding Kodak Express, stating that, although often independently owned, these outlets might be able to access service or products more easily, or possibly cheaper, than Baldwin.

### **The Boots Company PLC**

7.3. Boots said that it had no concerns about the merger. It currently sent about 30 to 40 per cent of its D&P business to wholesale labs, and thought that it had the right balance between wholesale and mini labs. If wholesale prices were to rise, it could increase its mini-lab capacity but there was a limit. For example, KPCL offered an overnight service, which Boots could not do unless it were to hire staff to work through the night. Boots said that there were six or seven other wholesale D&P firms operating in the marketplace, but there had been considerable consolidation across the whole industry.

7.4. Boots said that the wholesale D&P business was very important to it as it represented about 4 per cent of total group turnover. Boots has had a long-standing business relationship with KPCL for the supply of wholesale D&P services and Kodak products. It was critical to Boots that its supplier had the ability to offer national coverage, and had a good distribution network in place to meet its needs, which might require two deliveries daily to its stores, even in remote areas. The ability to offer consistent quality of work across the UK was also essential so that Boots could, in turn, offer a standard set of services to its customers.

7.5. Asked about alternatives, Boots believed that ColourCare had a lower production capacity than KPCL, and Colorama could not offer national coverage. It said that, even if there were only one credible wholesale supplier in the marketplace, it still had alternative choices available because of the investment it had made in its mini-lab operations. Boots said that it had the ability, if it so chose, to extend the operating hours of its mini labs. It could also set up its own main labs and distribution network. A small price rise by KPCL would not trigger such a major change in approach but might cause Boots to reconsider its policy of offloading some of its work even at quiet times of year so as to help KPCL keep capacity available.

7.6. As to future developments within the industry, Boots thought that advances in technology would see a greater proportion of prints being printed digitally. It anticipated some changes resulting from DSCs but, fundamentally, it still expected to see significant volumes of conventional film formats being processed. Investment in digital printing was important and the main labs needed to catch up with mini labs so that the customer got the same quality of service irrespective of whether his or her film was processed on- or off-site. Boots expected that there would be a decreasing reliance by retailers on wholesalers because of the greater adoption of mini labs; the profitability of processing on-site was greater and therefore it made economic sense to operate a mini lab if there was sufficient volume.

7.7. Boots believed that prices would reduce over time because there was now much more competition in the marketplace compared with a year ago. There had been a number of new entrants, most notably large supermarkets, and they were now becoming more active. They did not yet have a significant market share, but they were investing significantly in mini-lab operations. Supermarkets were competing aggressively on price, and were undercutting the majority of the other retail prices in the high

street. Boots did not see itself as competing primarily on price: it aimed to provide a differential service, and it offered services that consumers currently could not get from other processes within the high street, for example premium digital services.

7.8. Boots thought it unlikely that there would be any significant changes in the marketplace following the merger. It would expect the merger to have the potential to bring some positive benefits, including cost savings to be passed on. Boots questioned whether there would be sufficient volume over the next few years to sustain two major wholesalers in the marketplace. It would be concerned if the wholesalers could not afford to invest in new technology.

## **Colorama Processing Laboratories Ltd**

7.9. Colorama is a family-owned business mainly involved in photofinishing, which accounts for between 80 and 90 per cent of its turnover. It also operates 41 retail shops, which account for between 15 and 20 per cent of its photofinishing business; the remainder comes from independent pharmacies and photographic shops. Colorama operates two processing plants, located in London and Manchester. It has a fleet of vans and runs its own distribution system. It also has a small mail-order operation. Colorama does not provide a national service, as Scotland and the West Country are not covered.

7.10. Colorama said that it operated primarily in the amateur photography market. It believed it was unlikely that there would be major changes in the wholesale processing market in the next three to five years. It did not expect DSCs to have much impact in this period. Digital technology was developing very quickly throughout the marketplace as a whole, and it was difficult to predict what impact this would have in the longer term. Colorama said that it had invested in the most up-to-date technology at both its plants, and had chosen the path of investment in areas where, it believed, there would be an impact on the quality and service that it offered. Colorama offered digital services, but the demand was such that those companies offering these services were losing money; the return on any new technology was limited. Colorama said that it provided what it thought was the current required demand from the customer's point of view.

7.11. Colorama said that most of its retail outlets had mini labs that offered a 1-hour and same-day service. Some customers wanted a quick service and were prepared to pay a higher price for an on-site facility. However, mini labs were restricted by capacity and those customers seeking a quick service would be encouraged to accept a 24-hour lab service if a mini lab was working to full capacity. Colorama said that some mini-lab operators were also the owners, and operators attempted to keep staff to a minimum. In order to keep a mini lab running continuously there was essentially the need for a full-time operator. It was not necessarily cheaper to process on-site those films that were not required immediately. Colorama was not convinced that there was sufficient demand in the marketplace to enable all operators to run mini labs at full capacity. Like mail order, it was not Colorama's aim to become more involved in the mini-lab sector, but rather to concentrate on wholesale processing. It had significantly reduced the number of its own retail shops, and knew of other retailers who were giving up mini labs. Colorama considered that the mini-lab market was separate from the wholesale market.

7.12. [ *Details omitted. See note on page iv.* ] It believed that the minimum service to consumers today should be 24 hours. If Colorama were unable to offer that minimum service, then it would not take on the business. Colorama said that distribution was very complex, and it depended largely on the number and timing of service calls demanded by customers. For example, one national retail chain might have priorities that were totally different from the service requirements of other national chains, even though they were all providing similar services. It would be difficult to meet the needs of competing wholesale processors. It had considered using PrintMovers but had decided that its needs would not get adequate priority. Asked about the viability of distribution, Colorama thought that it carried many other products besides photographic on its vans. Colorama did not see PrintMovers as a viable proposition if it only carried D&P work.

7.13. Colorama said that it was able to compete with KPCL and ColourCare because it was smaller, flexible and more attractive to independent customers; it had tended to provide innovative products. Colorama said that it had serviced national retail chains in the past, including Boots, but that it no longer had any national accounts.

7.14. [

*Details omitted. See note on page iv.*

]

7.15. Colorama stated that retail prices had not increased for a number of years because the independents and the national retail chains felt that, if prices were to increase, they would lose volume.

[ *Details omitted. See note on page iv.*

] Prices overall had remained stable.

7.16. [

*Details omitted. See note on page iv.*

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7.17. Colorama said that, historically, KPCL had always tried to win business in the independent sector and, following the merger, this was unlikely to change. The new entity would be in a position to offer lower prices and so undercut Colorama. It said that the merger might result in a loss of quality and service to the consumer and that, through predatory pricing, the whole industry could suffer. Colorama thought it unlikely that it would be able to form an alliance with other smaller regional wholesalers to enable them to build up a national business and so compete with KPCL, as there would be too many players wanting their own say. Should rationalization result from the merger, then Colorama believed that it would be well placed to take advantage of this and so enable it to provide national coverage in a true sense by establishing plants in Scotland and the West Country.

## **Dixons Group plc**

7.18. Dixons Group plc (Dixons) said that it viewed the proposed merger as favourable. In its experience, the market for D&P services had historically been a highly competitive one comprising not just the traditional wholesale sector (in which KPCL and ColourCare participated), but also the fast-growing mini-lab sector and the long-established (but in relative terms, declining) mail-order segments. Consumers were faced with considerable choice between these sectors, each of which competed aggressively with the others on price and service. The fact that mini labs had gained a significant increase in market share in recent years at the expense of other sectors indicated the extent to which consumers were influenced by the speed of delivery of developed films. Dixons said that a variety of types of outlet, ranging from more conventional stores to convenience stores that traded for extended hours, now provided mini-lab services offering fast turn-round times. Wholesale operators needed to achieve economies of scale and greater efficiencies, especially in terms of collection and delivery if they were to be able to compete effectively with mini-lab operators both in terms of price and in turn-round times.

7.19. Dixons believed that these considerations underpinned the proposed merger between KPCL and ColourCare. Accordingly, if the merger were allowed to proceed, it would, in Dixon's view, enhance rather than hinder competition by ensuring that the present wide choice of channels enjoyed by consumers was maintained.

## **Fuji Photo Film UK**

7.20. Fuji did not express any views either for or against the merger. It provided evidence at an oral hearing. Fuji's operations in the UK are concerned with distribution only; it has no manufacturing base here. Turnover in the UK for the last financial year was £250 million. Fuji regarded Kodak as its main competitor, particularly in key products such as film and paper. It had no wholesale lab operations in the UK because, historically, KPCL and ColourCare had dominated this market, and Fuji had not found an opportunity to enter it. [ *Details omitted. See note on page iv.* ]

[

*Details omitted. See note on page iv.*

]

7.21. Fuji said that retail prices for film processing in the UK were much lower than those in mainland Europe or Japan (less than half those in France), [

*Details omitted. See note on page iv.*

]

7.22. Fuji said that it had supplied nearly half the 3,000 mini labs currently operational in the UK. It believed that it was the leader in digitally-enabled mini labs, and had enjoyed success over the last two years because of that. Prior to that it had been technically more advanced than its competitors. Fuji said that about 38 per cent of films processed in the UK went through mini labs. This compared with about 65 per cent in Japan and about 50 per cent in the USA.

7.23. Fuji said that outright sales to customers, both large and small, accounted for most of its mini-lab business. Boots was its largest customer, and it also supplied Asda. Fuji offered service contracts for its mini labs, and it did not insist that customers bought its materials. Fuji believed that one of the reasons why retailers had mini labs installed was the sales of other photographic and non-photographic goods that were generated as a result.

7.24. We asked Fuji about Fuji Imaging Services. Fuji told us that Fuji Imaging Services, of which there are about 200 outlets in the UK, is a franchise operation offering a processing service using the Fuji name; it is not owned by Fuji. Franchisees pay a fee to participate, and Fuji has a legal ability to remove the Fuji name if a franchisee reneges on any of the arrangements in place. Fuji did not insist that franchisees installed its machines.

7.25. Fuji said that there were differing views on whether or not the public was sensitive to the prices charged for film processing. It believed that in urban areas of higher than average wealth, people were not very price sensitive, but that there tended to be more price sensitivity in the North.

7.26. Fuji believed that the merger would have little effect on the supply of products such as paper, film, chemicals and machines. There was no strong connection between any pressure that a dominant wholesaler could bring to bear on a retailer and, for example, a retailer's ability to obtain supplies of film. The merger was unlikely to have much impact on the operation of the market: there was increased competition from digital mini labs and greater efficiencies in the marketplace in which KPCL and ColourCare operated. Fuji did not think that there would be radical changes in the market over the next three to five years as a result of the merger.

## **Grunwick Processing Laboratories Limited**

7.27. Grunwick is primarily a mail-order photofinisher. It also has 31 shops trading as Bonusprint and undertakes some wholesale D&P. It told us that it used to process for Boots but had found that wholesale D&P was not a business on which it was easy to make any profit. Mini labs, in Grunwick's view, were not a business on which a stand-alone retailer would be able to make a profit, because of the cost of rent, employees and equipment. Retailers that, like Boots, had decided to make the investment in a mini lab, were in a different position as they were also selling other products in their stores.

7.28. Grunwick said that the advantage of mail-order processing was that it went direct to the consumer. The crucial difference in cost between a mail-order lab and a wholesale D&P lab was that a mail-order lab did not have to turn film around in 12 hours at night. Recruitment of customers took place through what Grunwick called 'first-time envelopes' delivered to homes or inserted in magazines.

Existing customers were sent 'repeat envelopes'. Grunwick's quality was known to be excellent; its selling point was price. About 60 per cent of its business came in 'repeat envelopes', but some existing customers used 'first-time envelopes'. Recruiting new customers was becoming more difficult because Grunwick envelopes in magazines had to compete with growing volumes of other inserted material.

7.29. Grunwick considered that mail-order customers were likely to be more price sensitive than customers who had their photos developed through retailers. Although there was a core of loyal customers, many people sometimes used mail order and sometimes not, depending on what was convenient to them at any particular time. Grunwick offered printing of photos from DSCs sent over the Internet, and offered digitally-enhanced prints using Agfa Dimax printers. For the next few years, it thought, the future lay in digitalization of analogue images, introducing new products as a result and reducing costs. A major investment would be needed to digitalize all its business.

7.30. We asked Grunwick about the effect of price rises on customer switching. Grunwick considered that, if the price of mail order went up 10 per cent, its volumes would drop 10 per cent because its customers were not fundamentally loyal to mail order. It constantly tried to woo customers with special offers and to move to offering new products such as photos on CDs. Operationally, it would not be easy for Grunwick to expand its dealer business, of which 10 per cent came from the Netherlands. Grunwick added that European retail prices for photofinishing were higher than UK prices. Grunwick's view was that collection and delivery services were expensive to run and that its skill and expertise lay in remaining a mail-order processor. Mail order gave it control of its business and a direct relationship with the final customer; it was also able to earn a greater return. Wholesaling was ultimately unrewarding because retailers took credit for, and profited from, the quality and efficiency of the photofinisher.

7.31. We asked Grunwick about Kodapost, Kodak's mail-order service, which competes with Grunwick's brands. Grunwick said that Kodak did not offer free film but offered other promotions, although its prices were higher than Grunwick's. Kodapost was able to trade on the Kodak name.

7.32. Grunwick thought that Kodak possibly subsidized its processing business out of its film and paper business and pointed out that Kodak marketed its film, on which margins were very high, at events such as the Olympic Games and in locations such as Disney World. However, Grunwick did not consider that Kodak's competitive position would be altered by the merger. Grunwick added that Harrier was a subsidiary of District Photo, whose paper was supplied by Kodak in the USA.

7.33. We asked Grunwick if it was considering offering a faster mail-order service. Grunwick said that it was attempting to do this to some extent but that there were limits to what could be achieved given that it had to use the postal services to deliver photos. Grunwick did not regard the merger as a challenge. It thought it was the natural result of an overpriced management buyout of ColourCare.

## **Intec Laboratories Limited**

7.34. Intec, a mail-order provider, said that there was overcapacity in the UK market for film processing. This overcapacity had existed since 1988, and had become more acute with the increased availability of mini labs in the high street and in major supermarkets. Overall, 35mm and APS film volume sales in the UK were in decline, and one in four new camera purchases in the UK were digital, requiring no film or processing.

7.35. Intec said that there were major factors in determining the future shape of the industry and its ability to embrace and enhance new technology. A strong brand leader was needed to devote considerable resources to continued research and development for the preservation of the industry and those employed within it.

7.36. Clearly, it was important for photo dealers to be able to obtain their photofinishing requirements on a competitive basis, and Intec was convinced that national coverage of competitors to the merged firm could be achieved, albeit on a regional basis through various laboratory organization combinations. However, this was not the case in Scotland where there appeared to be less competition.

7.37. Intec said research had shown that, in spite of photoprocessing outlets offering a next-day service, the reality was that customers' orders remained in the shop for the best part of a week before the

customer actually collected them. Therefore, it would not seem unreasonable for competitive services to be offered using Royal Mail for transferring customers' orders to and from high street dealers and stores.

## **The Jessop Group Limited**

7.38. Jessops is a specialist photographic business geared to the keen amateur photographer. In 1996, it was the subject of a management buyout. It told us that its strategy was to grow the business rapidly and that it currently had 210 stores; 92 per cent of its business was retail-based. Jessops felt that its particular strength lay in its product range and accessories, with knowledgeable staff. Jessops' D&P was a highly-profitable part of its business and it intended to expand specialist shops that had mini labs and also mainly used Jessops' own D&P. That said, Jessops also was expanding mainstream stores that used KPCL or TopFoto for wholesale D&P.

7.39. Jessops said that digital mini-lab technology was far superior to analogue mini-lab technology and that it had made a big investment in digital mini labs. Mini labs were only more profitable if a premium was charged for same-day processing. Currently, slightly over one-third (35 per cent) of Jessops' photos were developed in mini labs; a little over one-twentieth (6.5 per cent) were developed in Jessops' own lab; about half (52.6 per cent) were developed by KPCL; and a relatively small amount (3.4 per cent) were developed by TopFoto. It projected that its use of mini labs would increase. Jessops was investing quite heavily in Internet printing in its own main lab in which it did about 8 per cent of its photoprocessing. It did not at the moment feel that it wanted to move to service other retailers. Looking at the future, Jessops thought that high-quality inkjet printers might replace conventional photographic printing.

7.40. Prior to August 2001, Jessops had used ColourCare for wholesale D&P. It had switched to KPCL for various reasons: one determining factor in making the switch had been the ability of KPCL to invest in digital technology (all Jessops' work is printed on the pre-production I-labs which KPCL is running). Jessops was also concerned about ColourCare's financial position, in particular its ability to invest in digital equipment. In the event KPCL had offered better terms than ColourCare and Jessops had felt that it was operationally too difficult to have both KPCL and ColourCare as suppliers.

7.41. Jessops regarded Boots and high street stores as competitors in a sense, but it offered a free own-brand film with prints and therefore its pricing was not strictly comparable. Jessops thought that the supermarkets were likely to emerge as a competitive force as consumers were likely to be attracted by 1-hour film processing, as films could be handed in before shopping and collected afterwards. Independent chemists might find their photo-developing business threatened. We asked Jessops how consumers would react if the price of overnight D&P went up by 10 per cent. Jessops thought that most consumers would switch to a same-day service. We asked if the reaction of owners of APS film was likely to be different. Jessops felt that it would be but APS film was likely to decline in popularity.

7.42. Jessops said that, with the coming of DSCs, customers would not want to leave expensive memory devices for developing, because cameras did not use film but, rather, put a card into a PC. This had many implications for mini-lab equipment and customer relations; Fuji had a system called Fujikiosk that allowed a customer to input a card into a PC at a mini lab. Some sort of similar input device would be desirable for retailers that were using wholesale D&P. It was quite likely that, in a few years' time, owners of DSCs would be reluctant to print pictures at all, though admittedly DSCs were not yet produced for the mass market. Home printers were still relatively expensive and could not match the quality of prints produced by mini labs. The challenge was to make it more attractive to print from DSCs professionally rather than at home.

7.43. We asked about the effect of the merger. Jessops said that it had some concerns but did not believe that KPCL was likely to raise prices, because of the threat from mini labs. Jessops felt that the smaller retailers were adequately serviced by wholesalers such as Colorama, and that consumers benefited from the competition provided by Klick/Max Spielmann and the independent chemists. [

*Details omitted. See note on page iv.*

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## **Kent Photo Services**

7.44. Kent Photo Services was concerned that the proposed merger would give KPCL a market share of between 50 and 70 per cent. Market forces were already making survival difficult for those independent wholesale photofinishers that remained. It felt there was a strong possibility that firms like itself could be forced out of business, which would lead to less choice for the public.

## **Klick Photopoint/Max Spielmann**

7.45. Klick and Max Spielmann are photofinishing businesses owned by Bowie CastleBank Ltd (Bowie CastleBank), which has its headquarters in Scotland. The company had four main labs, which were located in Birmingham, Leeds, Liverpool, and Wishaw, near Glasgow. It operated a total of 600 shops at locations ranging from Inverness in the North to the Isle of Wight in the South; 440 of the outlets were under the Klick name and 160 traded as Max Spielmann. The company had little or no representation in East Anglia or within the M25. About 90 per cent of its shops were serviced by its own distribution network. The company thought that any future expansion was likely to be through organic growth. Bowie CastleBank said that it attributed the growth of the company over the last 20 years to economies of scale and the competitive prices that it offered its customers.

7.46. The company said that about 200 of its shops currently had mini labs, none of which was digital. It did, however, operate digital mini labs within its main-lab operations. The company did not use other wholesalers to process any of its work; this was partly for cost-cutting purposes, and it also believed that it could offer its shops a better service than other competing wholesale labs.

7.47. Bowie CastleBank said that, in its experience, the market had been shrinking for a number of years, and this had been accelerated in the last couple of years by entry to the marketplace of supermarkets and other retailers offering mini-lab services. The company said that this trend would be likely to free up capacity in its own labs, which would allow it, if it so chose, to compete for wholesale business—though it thought that it was unlikely to do so at current margins. Its current preoccupation was integrating the recently-acquired Max Spielmann business. The company said that the same-day service that it offered was processed through its mini labs, while all other business went through its main labs. Main labs were more cost-effective to run than mini labs.

7.48. As to the long-term future of wholesale labs, the company believed that high street retailers were increasingly investing more in mini labs so as to create independence from the wholesaler. Digital technology would also mean that mini labs could offer more services than those currently offered by analogue machines.

7.49. Asked about possible expansion into the South of England, the company said that its current set-up meant that its Birmingham laboratory could go a long way to servicing the South of the country. It would also have the option of using other wholesalers in the far South and far South-West, including KPCL, but it might also choose to rely more heavily on mini labs to provide a faster service in these locations. It was unlikely to set up another main lab.

7.50. Bowie CastleBank believed that the merged company was bound to be more efficient than the present structure because wholesale photofinishing was currently unprofitable. Consumers were unlikely to suffer because there was increased competition in the marketplace from mini labs; prices were falling and, in the longer term, there was also the potential of new entrants to the marketplace through European integration. If the wholesale D&P market became less competitive, it would itself consider entering the market and could do so very quickly.

## **Lloyds Pharmacy Limited**

7.51. Lloyds operates 1,320 pharmacy outlets across the UK. Turnover in 2001 was nearly £1 billion across NHS and non-NHS. About 45 per cent of non-NHS turnover came from over-the-counter sales of medicines, and some 7 per cent was related to photofinishing. Lloyds said that only some 13 of its outlets had mini labs. It did not see mini labs as a strategic element of its business for a number of reasons; these included the amount of space required, the staff needed to operate them and the throughput it would take

to make them economic. The location of its pharmacies was such that there was not the level of throughput to justify such an investment.

7.52. Lloyds said that ColourCare was the only supplier that it used for its wholesale D&P business on the UK mainland. The two companies had had a good working relationship for the past number of years, and ColourCare was able to provide national coverage; Lloyds was therefore able to monitor consistency. ColourCare was content for Lloyds to supply its own-brand films for D&P, which Lloyds regarded as an advantage so far as its customers were concerned (it gave a free own-brand film back with each film developed); and it was also seen as a means of building the Lloyds brand. Kodak, on the other hand, had not been willing to provide Lloyds with that particular service or with solely Lloyds branding in D&P wallets, and also its prices were higher than those of ColourCare. Lloyds did not see Colorama as a national supplier because of its inability to cover the whole of the UK, particularly Scotland.

7.53. Asked about wholesale prices, and possible increases, Lloyds said that the current pricing structure within the UK for wholesale overnight processing had been static for some time. Its own pricing structure dictated that it could not increase its price points without putting them beyond what it saw as a barrier. The price of the average basket of goods at a Lloyds chemist was considerably lower than many other retailers, and to ask customers to bear increased film processing costs would significantly increase its current basket spend.

7.54. Lloyds said that it competed with other pharmacies, supermarkets and mail order. It believed that, in general, supermarkets drove price points down in any market that they entered. They were now investing heavily in mini labs.

7.55. Lloyds stated that the digital market had grown substantially in the last few years. It would not be viable for Lloyds to invest in digital technology. It offered a film-to-CD service through ColourCare, but the volume was very limited; the average consumer was probably not fully aware of what was available.

7.56. Lloyds said that its customers valued the convenience of a next-day service at competitive prices and a free film. This had helped Lloyds to increase volume and, in its view, outperform the market. Whether that was sustainable in the future was difficult to predict. Lloyds added that a next-day service was very important to it; if that were to slip to three days, for example, then potentially its customers might find mail order more attractive.

7.57. Lloyds was concerned about the way in which KPCL might conduct itself following the merger—not only in the near future but also over the longer term. Lloyds currently had an agreement with ColourCare with which it was very comfortable. [

*Details omitted. See note on page iv.*

] It did not regard Colorama as a national distributor; it had too few labs and did not cover the whole country. Lloyds felt that KPCL would inevitably want to improve its overall profitability and that might have a detrimental effect on Lloyds. [

*Details omitted. See note on page iv.*

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## **Minit UK plc (Supasnaps)**

7.58. Minit said that KPCL and ColourCare were the only wholesale processing businesses in the UK with truly national coverage. If the proposed merger were allowed to proceed, then retail processing chains would have very limited negotiating options; this might drive costs up for retailers, which would inevitably be passed on to the consumer. Minit was also concerned about placing its third party processing in the hands of a company such as KPCL, which offered a mail-order service. It feared that this could produce a conflict of interest within KPCL itself, which could, in a worst-case scenario, result in the retailer being totally excluded from the photoprocessing link.

## **Parkers Pharmacy**

7.59. Parkers Pharmacy (Parkers), which operates two independent pharmacies on the outskirts of York, was opposed to the merger because it believed it would severely reduce competition in the independent D&P sector. Parkers said that until recently KPCL was its supplier, but about two years ago KPCL refused to supply it on the grounds that its turnover was too small. The only other supplier that was prepared to deliver to both Parkers' shops was ColourCare, and this was currently the case.

7.60. Parkers said that, if the merger were allowed to proceed, then KPCL, because of its size, would be the dominant partner. It would therefore only be a matter of time before KPLC demanded that Parkers' ColourCare account was closed. As a result, Parkers would be unable to offer D&P services at either of its branches. It said that many other retailers would be similarly affected as KPLC had closed other accounts at the same time as Parkers.

## **Robert Whyte Photographics Ltd**

7.61. Robert Whyte Photographics Ltd said that it was unlikely to be affected by the proposed merger. KPCL and ColourCare had, between them, controlled wholesale photographing processing in the UK by operating nationwide to multiple retailers, mainly chemists' chains and supermarkets. It said that it found it impossible to do business locally with these types of retailer despite offering them superior service times and prices. As a result, it was unable to expand its business, or even to maintain its present turnover.

## **Superdrug Stores plc**

7.62. Superdrug said that it had only started offering a D&P service through mini labs in 2000 and was still learning. It now provided a D&P service at 700 of its stores, 90 of which had mini labs. In addition to the mini-lab service, Superdrug offered a counter service and also a 'do-it-yourself' service where customers could dispatch the orders themselves. Those stores which had mini labs were in a position to promote a 1-hour service. Superdrug said that there was little difference between wholesale D&P and mini-lab D&P costs if all mini-lab costs, such as payment for paper and chemicals, were taken into account. Superdrug's aim was to promote the 1-hour service where a premium could be charged. None of Superdrug's mini labs was digital. In its view, the majority of customers just wanted standard photographs, and Superdrug wanted to increase its share of this market. Customers were unlikely to appreciate a digital service. Superdrug said it expected that price competitiveness was likely to increase, especially with supermarkets becoming increasingly active in the market.

7.63. Superdrug said that it had switched from ColourCare to KPCL in the late 1990s. Its unusually long, five-year, contract with KPCL included the purchase of paper and the ability to display the Kodak logo on its photo envelopes. Kodak also had an exclusive deal with Superdrug to service its mini labs. Superdrug felt that Kodak had excellent quality and could provide a fully-integrated service consisting of both wholesale D&P and mini-lab supplies and maintenance. Superdrug believed that the merger would strengthen KPCL by giving it greater capacity to deal with peaks in business. It wanted a national service and regretted the potential loss of a competitor to Kodak but did not consider that ColourCare offered a real alternative now: it had not been in touch recently.

## **Transport and General Workers' Union**

7.64. The Transport and General Workers' Union (T&G) said that currently some 1,500 members of its members were employed at KPCL, and approximately 140 at ColourCare. It also had a significant number of members working in other companies within the industry, as well as in related industries and suppliers such as chemicals and paper.

7.65. The T&G recognized that the photographic industry was currently going through a period of flux and rapid change. One of the most important contemporary characteristics of the industry was excess capacity. Companies were also facing the challenge of increased competition from high-street mini labs and desktop photo printing. Moreover, the future success of any company involved in this market increasingly depended on its ability to invest in, and make use of, new technologies.

7.66. The combination of all these factors was putting increased pressure on many smaller companies, such as ColourCare, which operated in the photographic industry. In view of the relatively weak position of ColourCare and, given that KPCL and ColourCare overlapped in terms of their markets and products, the T&GWU regarded both parties as logical candidates to merge. A merger would therefore stabilize KPCL's market share, enable it to provide effective national coverage to its customers and, by doing so, improve the job security of the T&G's members. In addition, the T&G's own research revealed that both companies believed that the economies of scale arising from a merger could help finance the installation of the latest digital processing equipment, thereby enhancing the business performance of the merged entity.

7.67. The T&G said that naturally it was always concerned about the implications of any merger for job security, for terms and conditions and for employee/employer relations. When considering any proposed merger (in addition to assessing its impact on competition and the public interest), the CC should also take fully into account the potential impact on jobs, employment conditions, existing bargaining arrangements and workplace relationships. However, having examined the evidence relating to this proposed merger, and after consultation with its representatives in both companies, the T&G was of the opinion that, on balance, the merger was in the long-term interests of its members, consumers, the industry in general and both companies in particular.

### **Mr William Watford**

7.68. Mr William Watford of Ringwood, Hampshire, said that his major concern was for the security of the jobs of local people employed by ColourCare, particularly at its Downton plant. He was convinced that rationalization was likely, which would affect jobs in all areas within ColourCare's processing plant. Mr Watford was also concerned that quality might suffer as the result of the merger.

### **A photographic laboratory**

7.69. A photographic laboratory based in London objected to the proposed merger. It felt that a merger, along with KPCL's other activities in the social photographic market, would, in the long term, seriously weaken competition and put smaller players out of business. If KPCL were to gain a substantial 50 to 70 per cent of the wholesale development and printing services market, that gain would give it an unfair advantage, especially with the marketing budget that it had at its disposal. It would be extremely difficult therefore for other competitors in the marketplace to promote themselves at that level and to compete on cost. The laboratory said that Kodak's involvement in setting up the Venture Portraits Group of high-street studios, and tying in individual studios to use Kodak's processing and printing facilities to the exclusion of others, was yet further evidence of Kodak wishing to monopolize a substantial share of the UK's photographic printing services.

### **A photographic studio**

7.70. A photographic studio, based in the North of England, operates a mini lab offering D&P services locally. Until recently, it had accounts with both KPCL and ColourCare; the majority of its APS films were processed by KPCL, and it used ColourCare on occasions for services that KPCL did not offer, for example slides from negatives and copy negatives. ColourCare terminated its account with the studio around mid-2001 on the grounds that insufficient business was being generated. The studio said that recently it had encountered problems with KPCL and that it wished to terminate its current arrangement. It approached ColourCare with a view to doing business with it instead, but was informed that, because of the proposed merger, ColourCare would not accept business accounts of less than £10,000 a year—and in any case would not accept customers which operated mini labs. The studio believed that both companies were now working together, but that they would probably deny it.

7.71. The studio said that it had been unable to find an alternative to KPCL or ColourCare for the processing of APS films and other services. The monopoly that KPCL now had through all its subsidiary processing companies was likely to become even more uncompetitive.

P A GEROSKI (*Chairman*)

S BROWN

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T S RICHMOND

E J SEDDON

R FOSTER (*Secretary*)

23 November 2001