Report on a survey of the parties' customers

1. We surveyed the views of the parties' customers and we explain below how we did this. We also summarize the views of 106 customers from 102 companies of which 87 had recently purchased drums from the parties.

2. Between one- and two-fifths had to use particular types of new steel drum and around one-third of users reported that they could not realistically use any alternatives. All those that had switched to alternatives had done so within the last two years—typically within the last six months and typically because of price. However, the majority of respondents identified barriers to switching to an alternative type of container and two-thirds of those responding when asked reported that they could not switch.

3. As regards imports, the great majority of customers apparently could not name suppliers importing new large steel drums and they had barriers to switching to imports.

4. Before the merger, promotional activity by the parties had been low. Moreover, a quarter of those responding, when asked, could not switch any of their expenditure with Greif and Blagden to alternative UK suppliers (although one-third could switch over half their current expenditure). Apparently, over 10 per cent of those responding unambiguously might switch in reaction to a 5 per cent price increase. However, this is not a reliable predictor of switching behaviour because customers revealed a high level of uncertainty when asked about switching between suppliers.

Method and sample

5. We asked Greif and Blagden for the addresses of their customers. We wrote to the addresses provided[1] and asked purchasing managers to complete a questionnaire to be mailed back to us. One week later we wrote again, reminding those who had not replied. Finally, we telephoned those who had not replied and encouraged them to do so. As a result we obtained responses from over one-fifth of the companies that had recently purchased from the parties, particularly larger customers, and the great majority of the respondents were those responsible for purchase decisions.

6. We received 106 responses from 102 companies of which 87 had recently purchased drums from the parties. We compared respondents' companies with the names of companies which the parties told us had placed orders in the previous two financial years. We found that most were from recent purchasers but 15 respondents were from companies named by the parties which had not placed recent orders. Table 1 compares the expenditure of responding companies with all companies that had ordered recently from the parties. It shows a somewhat higher incidence of larger purchasers among responding companies. Thus, 24 per cent of companies responded to the survey and they represented 49 per cent of revenue in 2004 to 2006.[2]

[1]These were often addresses for accounts receivable departments but we addressed our letter to: 'The Purchasing Manager'.
[2]We computed the percentage of revenue by summing the values of (i) all orders that the parties had told us about and (ii) the orders of responding companies. Then we expressed the latter as a percentage of the former.

TABLE 1 **Analysis of respondents and non-respondents by expenditure with the parties**

Total expenditure with Greif & Blagden (2004/05 to 2005/06)	*All companies*	*Responding companies* (*per cent*)
Less than £1,000	4	1
£1,000 and less than £5,000	15	5
£5,000 and less than £25,000	27	21
£25,000 and less than £125,000	20	21
£125,000 and less than £625,000	18	25
£625,000 or more	16	28
Total	100	100
Base	*359*	*87*

Source: CC survey.

Notes:
1. There were responses from 15 companies named by the parties as customers but that had not placed recent orders; they are not included in this table but are included in the remaining analysis.
2. Four companies provided responses from two different business units; these are treated as single customers in this table but as individual respondents in the remaining analysis.

7. Four companies provided responses from two different business units and these are treated as separate respondents in the analysis of survey responses below. Table 2 shows that almost 90 per cent of the respondents were fully or mainly responsible for purchasing new steel drums.

TABLE 2 **Responsibility level of the respondents with respect to ordering steel drums**

	%
Fully responsible	68
Mainly responsible	19
Knowledgeable but not fully responsible	8
Not stated	6
Total	100
Base	*106*

Source: CC survey.

8. In summary, the views of respondents are likely to reflect their companies' behaviour towards the parties and, if there is a bias in their responses, respondents will be more likely to reflect the views of larger purchasers.

Results

Nature of respondents

9. We asked respondents how best to categorize their business that uses new large steel drums, using the categories in Table 3. The categories are not mutually exclusive. Almost half the businesses were packaging industrial chemicals, about one-quarter were packaging solvents, and similar proportions were packaging petroleum products or paints.

TABLE 3 **Customers' types of business**

	%
Industrial chemicals	49
Solvents	27
Petroleum products, lubrication oils	26
Pharmaceuticals	8
Food, edible oils, processed fruit	8
Paints, coatings, ink etc	23
Mining	2
Agro chemical	3
Other	18
Base	*106*

Source: CC survey.

Note: Multiple responses—percentages do not sum to 100.

Annual orders

10. We asked for the volume of new large steel drums ordered annually by the businesses of respondents. Table 4 shows the median of 90 responses by supplier, together with the lower and upper quartiles. One-quarter of respondents gave answers less than or equal to the lower quartile; half gave answers less than or equal to the median; three-quarters gave answers less than or equal to the upper quartile. Thus, the median total volume of 5,000 is an average annual volume, while the lower and upper quartiles show that the dispersion in total volumes ordered is typically between 900 and 12,500 drums. The average volume ordered by 63 customers from Greif was [✄] drums; the average volume was [✄] drums for 29 Blagden customers. Thus the sample included relatively more small customers among those ordering from Greif.

TABLE 4 **Annual numbers of large new steel drums ordered**

		Lower quartile	*Median*	*Upper quartile*
				Drums
All suppliers of new drums (90)		885	5,000	12,500
of which:	Blagden (29)			
	Carrick James (5)			
	Greif (63)			
	HW Stockley and Sons (1)			
	Metal Drum co (11)		✂	
	Ramsden and Whale (11)			
	AW Stokes and Son (9)			
	Other supplier (1)			
	Imports (4)			

Source: CC survey.

Note: Figures in brackets are numbers of respondents—caution should be exercised when interpreting results for fewer than 50.

11. The annual number of orders for new large steel drums (ie as opposed to the number of drums given above) was on average 20 (median) and typically between 4 (lower quartile) and 50 (upper quartile).

12. Table 5 breaks down expenditure on large, new steel drums by type of drum and by the more common types of business. Low counts for some types of business mean that the results are indicative rather than precise estimates. The average (median) total annual expenditure was £83,000, and typically varied between £19,000 (lower quartile) to £240,000 (upper quartile), among these respondents.

TABLE 5 **Annual expenditure on large new steel drums**

£'000

*Customer's business**		*Total*	*210-litre open-head drum, lacquered*	*210-litre open-head drum, internally plain*	*210-litre tight-head drum, lacquered*	*210-litre tight-head drum, internally plain*	*Other large steel drums*
Industrial chemicals (52)	Q1	20	8	12	14	11	14
	Median	100	50	45	36	81	19
	Q3	250	142	60	90	203	28
Solvents (29)	Q1	15	10	20	10	10	11
	Median	92	50	25	24	41	14
	Q3	218	66	45	59	165	18
Petroleum products, lubrication oils (28)	Q1	31	7	12	13	45	11
	Median	86	50	66	37	94	23
	Q3	455	405	120	89	375	36
Paints, coatings, ink etc (24)	Q1	35	30	10	10	8	11
	Median	120	70	20	21	62	14
	Q3	218	142	25	48	202	18
Total (106)	Q1	19	9	12	12	10	9
	Median	83	54	20	34	58	19
	Q3	240	142	60	119	200	31

Source: CC survey.

*Multiple responses.
Notes:
1. Q1 = lower quartile; Q3 = upper quartile.
2. Figures in brackets are numbers of respondents—caution should be exercised when interpreting results for fewer than 50.

Nature of contracts

13. We asked whether respondents had long-term contracts or placed orders on a one-off basis with UK steel drum suppliers. Table 6 shows their estimates of the percentage of purchases, by value, covered by one-off or long-term contracts with UK suppliers. It also shows that 18 per cent of customers had contracts of at least one year for all their orders.

TABLE 6 **Incidence of customers with contracts versus one-off orders**

per cent

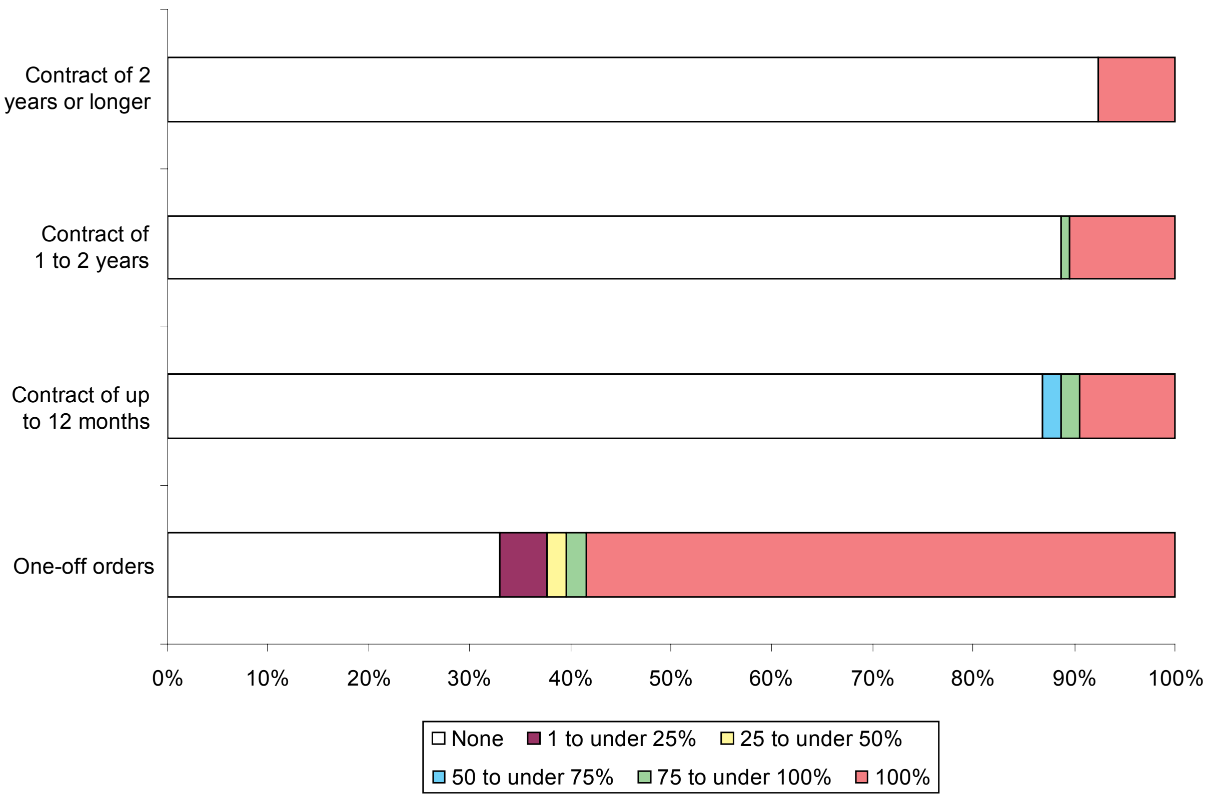
Percentage value of orders	*One-off orders*	*Contract of up to 12 months*	*Contract of 1 to 2 years*	*Contract of 2 years or longer*
None	33	87	89	92
1 to under 25%	5	0	0	0
25 to under 50%	2	0	0	0
50 to under 75%	0	2	0	0
75 to under 100%	2	2	1	0
100%	58	9	10	8
Total	100	100	100	100
Base	*106*	*106*	*106*	*106*

Source: CC survey.

14. Figure 1 charts the results and shows the predominance of customers with one-off orders: 58 per cent reported that all their orders were one-off.

FIGURE 1

Incidence customers with contracts and one-off orders



Source: CC survey.
Base: 106 customers.

Preferences for products

15. We asked on a three-point scale whether customers preferred particular types of large new steel drum to other containers. The scale was: no preference; prefer to use; must use. Table 7 shows the incidence of those who indicated that they must use particular drums, taking as a base all those who replied to the survey, whether or not they responded to this question. The proportions that had to use particular types of drum ranged from one- to two-fifths of the survey as a whole. The table presents lower bounds on the proportions that must use these drums.

TABLE 7 **Percentage of customers who must use particular drums**

per cent

*Customer's business**	*210-litre open-head drum, lacquered*	*210-litre open-head drum, internally plain*	*210-litre tight-head drum, lacquered*	*210-litre tight-head drum, internally plain*
Industrial chemicals (52)	29	19	48	44
Solvents (29)	38	24	38	59
Petroleum products/lubrication oils (28)	14	11	32	68
Pharmaceuticals (9)	33	44	78	67
Food/edible oils/processed fruit (9)	44	11	89	33
Paints/coatings/ink/adhesives (24)	71	33	46	50
Mining (2)	100	50	50	50
Agro chemical (3)	100	67	67	67
Other (19)	42	26	37	37
All (106)	37	20	42	44

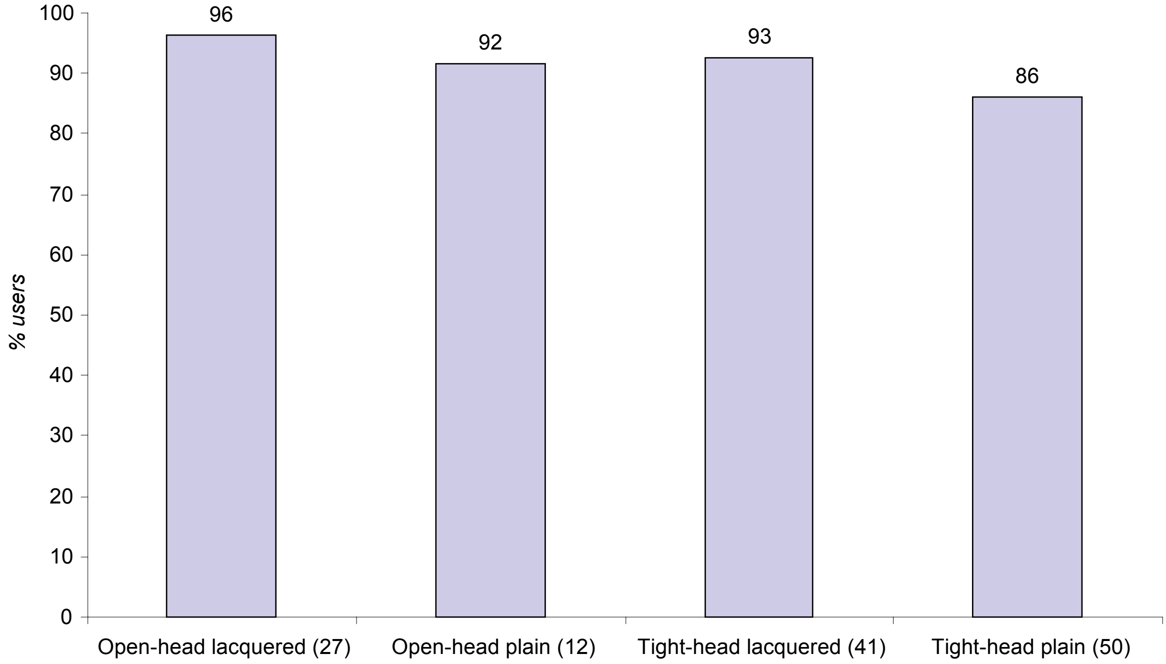
Source: CC survey.

*Multiple responses.
Note: Figures in brackets are numbers of respondents—caution should be exercised when interpreting results for fewer than 50.

16. Figure 2 shows the percentages of users of particular types of drum who reported that they must use these drums. The percentages are much higher than the lower bounds in Table 7. The figure shows that over 85 per cent of users of each type of drum reported that they must use that type of drum, where we have defined users as respondents who specified their expenditure on particular types of drum. Note that those who must use particular drums may only be obliged to use that type of steel drum for some requirements. Results should be interpreted as indicative rather than precise where there are fewer than 50 respondents.

FIGURE 2

Percentages of users who must use new steel drums



Source: CC survey.
Note: Figures in brackets are numbers of respondents—caution should be exercised when interpreting results for fewer than 50.

17. We asked those customers who had said that they must use particular types of new steel drum to explain why they had to use particular types of drum. We asked in turn why they had to use: drums of that size; closed drums; lacquered drums; a particular thickness; and finally why they had to use steel containers. Out of 81 respondents[3] who reported that they must use one type of drum, 74 gave reasons why they must use steel rather than other materials. The responses were as follows.

18. Typically they mentioned that particular drum *sizes* were their customers' requirements or industry standards; others mentioned product requirements. The reasons to use open-head drums were product or customer requirements, which in some cases would be the same:

[3]Seventy-two of the 81 were classed as 'users' above, since these gave their expenditure on particular drums.

'Open top drums are used where customers need to mix the contents thoroughly before use. The products are usually a mix of solvent and suspended solids.'

19. Similarly, the typical reasons to have to use *tight-head* drums were product requirements and safety (eg flammable or harmful liquids, lubricants, petroleum products, oils, chemicals or other fluid products). Again, their customers often specified the use of tight-head drums. Tight-head drums facilitated safe filling, storage, and handling and avoided spillage:

    '… tight-head drums are safer for the transportation of liquids, and meet the required performance standard (which open drums do not).'

    'Our products are oils/fluids. Drums [are] often stored on their sides therefore potential for leakage in open heads.'

20. Typically respondents had to use *lacquered* drums because the products they packaged would react with plain steel (ie to avoid rust and steel contamination, discolouration of the product or to maintain safety for food products).

    'To ensure that our products do not attack the steel drum.'

    'If the drums are un-lacquered the product attacks the steel and corrodes, causing discolouration of the product.'

21. They had to use a particular *thickness* of steel to comply with industry specifications and regulations. Safety to the environment and the nature of the product also played a role in the need to use a particular thickness of steel drums:

    'Thicker the steel the more pressure it can take.'

    'The distribution is also quite rough so the drums need to be of a certain thickness to withstand this handling, and filling equipment is also designed for a particular thickness of drum.'

    'UN regulations insist on certain thickness for hazardous products.'

‘Less risk of creasing or compromise of container causing leaking.’

22. Finally we asked why they had to use steel. The reason was typically that this was the only packaging compatible with their product. In the case of exporters producing hazardous material, steel was the only packaging allowed under IMDG/IATA regulations. In addition, steel protected the product during transit (unlike plastic). Steel was the commercially preferred material and was a customer requirement. Where products required reheating prior to use, plastic packaging was not an option:

    ‘DSEAR in many cases excludes plastics so steel is the only alternative.’

    ‘H.S.E—there are some pyrophoric products in the catalyst range which because of the physical and chemical properties of the product packaged requires a package of steel construction. Transport Legislation—IMDG/IATA regulations stipulate that for pyrophoric products the package must be hermetically sealed. This rules out fibre and plastic drums. Steel will dissipate static build up removing the hazard of fire for hazardous class 3 flammable chemicals.’

    ‘… products are at high temperature (over 100ºC) at filling. Plastic/fibre drums not suitable at these temperatures.’

23. As well as product specifications, customer requirements, transportation and packaging regulations, safety, and handling, respondents also mentioned cost effectiveness and availability as reasons why they had to use large, new steel drums.

Alternative containers

24. We asked what the realistic alternatives to each type of new large steel drum were. For each of the four types, fewer than half the respondents answered the question and among those at least one-third had no alternatives to the four types of large steel drum. Table 8 shows that the main alternatives that were identified included: intermediate bulk containers; large plastic drums; reconditioned large steel drums;

and small steel drums (ie under 210 litres). In order to infer from the results the overall incidence of alternatives, one must decide how to interpret the answers, or absence of answers, from other respondents. One pre-coded response to the question ‘What are your alternatives, if any, to large new steel drums?’ was ‘Don’t use’. However, many of those who ticked this response had reported elsewhere that they did use those drums, and so a reasonable inference is that these respondents were indicating that they did not have alternatives, rather than that they did not use particular steel drums. Reasonable interpretations of those who gave no answer to the question are: ‘I have no alternative so I can’t answer’; ‘I don’t know’; ‘I don’t need this type of drum for my business’. It would not appear to be reasonable to infer that all non-respondents had alternatives to each type of drum.

TABLE 8 **Alternatives to new steel drums**

per cent

	Open-head lacquered	*Open-head plain*	*Tight-head lacquered*	*Tight-head plain*
Intermediate bulk containers (IBCs)	34	26	41	45
Large plastic drums (210 litres)	23	41	37	33
Reconditioned large steel drums	25	22	20	41
Small steel drums (less than 210 litres)	14	26	22	24
Bulk packaging	16	11	20	20
Small plastic drums (less than 210 litres)	7	11	14	16
Pails and small containers	14	7	6	2
Fibre drums	7	7	0	0
Cardboard cubes	2	0	4	0
None of the above	43	41	31	35
Base	*44*	*27*	*49*	*51*

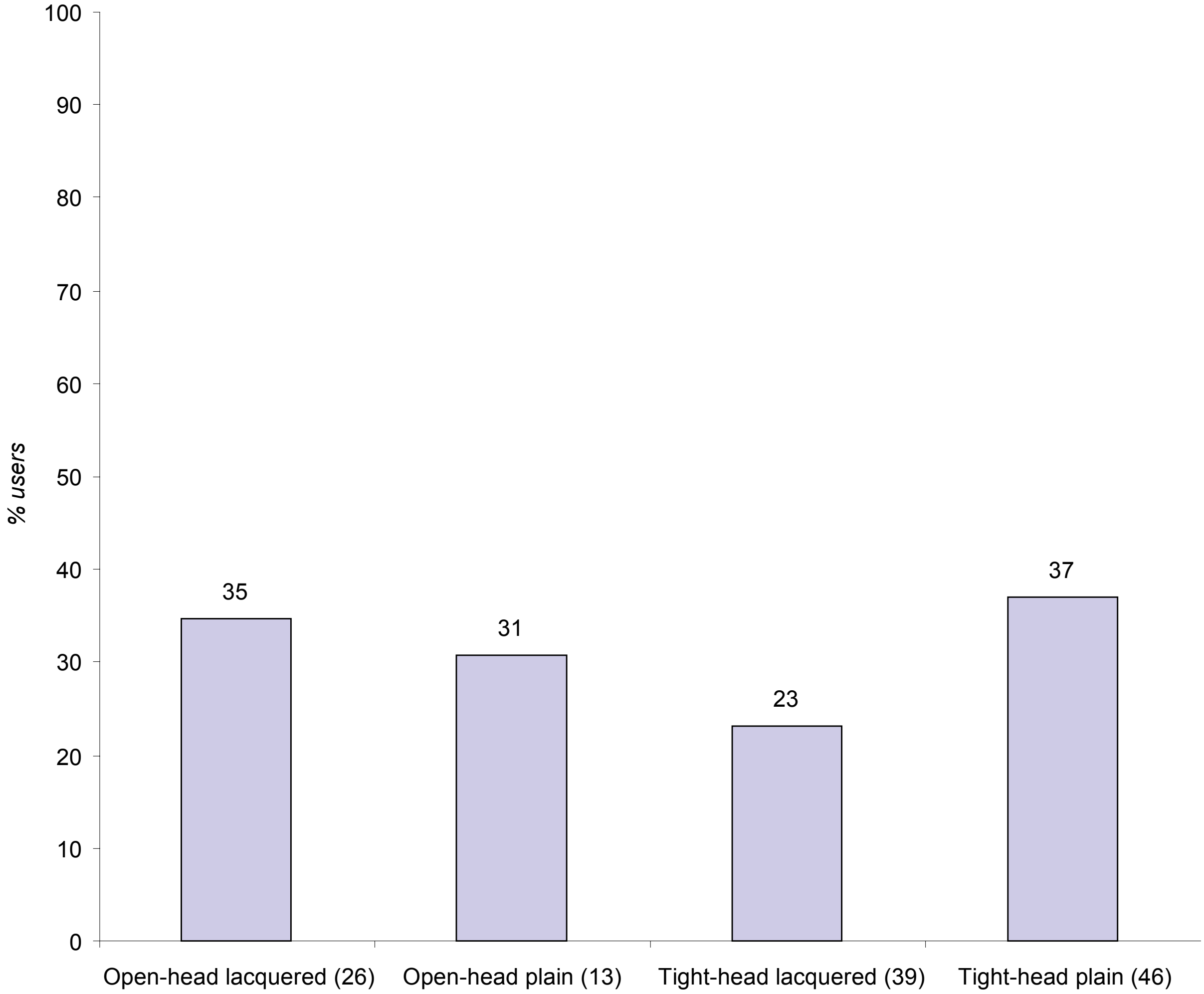
Source: CC survey.

Notes:
1. Multiple responses: percentages do not sum to 100.
2. Caution should be exercised when interpreting results for fewer than 50 respondents.

25. Figure 3 shows the percentages of users (as defined previously) who indicated that they could not use any alternative. Base sizes are small and so caution should be used when interpreting these results, but the percentages are similar to the corresponding percentages in Table 8.

FIGURE 3

Percentages of users who could not use any of the alternatives



Source: CC survey.
Note: Figures in brackets are numbers of respondents—caution should be exercised when interpreting results for fewer than 50.

26. We asked customers to estimate the number of times in the previous 12 months that they had ordered alternative types of container instead of large new steel drums. Table 9 shows that, while a couple of respondents reported that they had placed at least 50 orders for alternatives instead of new large steel drums, over 70 per cent of all those responding to this question had never switched any order in 12 months. Moreover, the incidence of switching was similar among those that had to use at least one type of drum as among all those responding.

TABLE 9 **Estimated number of times customers switched to alternatives in the past 12 months**

per cent

	All responding	*All who must use*	*New large steel drum that must use**			
			Open-head lacquered	*Open-head plain*	*Tigh- head lacquered*	*Tight-head plain*
Never	72	71	71	63	59	73
Once	5	7	3	0	12	5
1–4 times	11	11	14	16	12	11
5–9 times	3	4	6	11	7	5
10–19 times	2	3	0	5	2	2
20–49 times	3	3	3	5	2	2
50 times or more	3	3	3	0	5	2
Total	100	100	100	100	100	100
Base	*94*	*75*	*35*	*19*	*41*	*44*

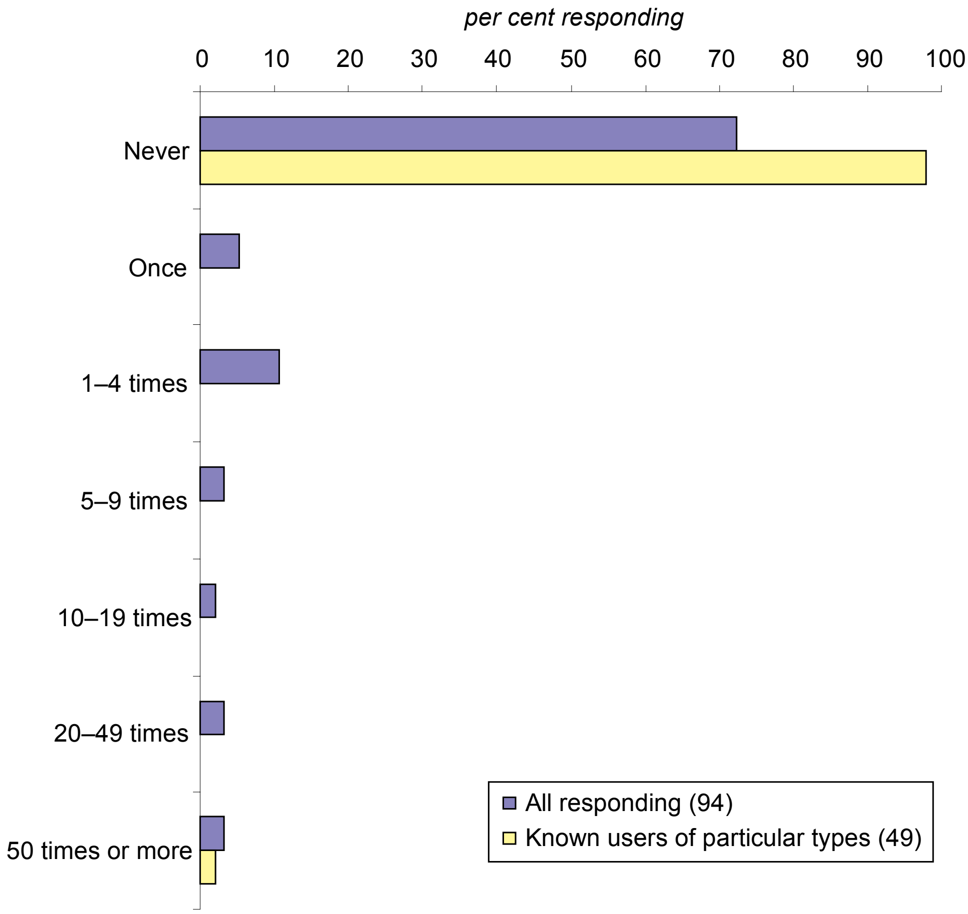
Source: CC survey.

*Caution should be exercised when interpreting results for fewer than 50 respondents.

27. If those who did not respond also did not switch, then the percentages in Table 9 are upper bounds to the incidence of switching among this sample of customers. Figure 4 compares the results in Table 9 with the incidence of switching by those whom we defined earlier as known users of particular types of drum (ie those who reported expenditures on particular types over the last 12 months). All except one respondent, who reported switching over 50 times, did not switch.

FIGURE 4

Estimated number of times customers switched to alternatives in the past 12 months



Source: CC survey.

28. We also asked for estimates of the proportions of requirements switched to alternatives in the previous 12 months, for all alternatives and for each alternative. Table 10 combines the answers to these questions to show the incidence of overall switching. Combining these results with reported annual expenditures implies that, in the previous 12 months, 6 per cent of total order value was switched to alternative containers by these respondents.

TABLE 10 **Value of new large steel drums replaced by alternatives in previous 12 months**

	%
None	78
1%–5%	5
6%–10%	6
11%–30%	7
31%–50%	3
Over 50%	2
Total	100
Base	*105*

Source: CC survey.

29. We asked when was the most recent order where customers had replaced large new steel drums with alternative containers. Table 11 summarizes the 92 responses out of the sample of 106. All those who had switched (this was one-quarter of those responding) had done so within the last two years and seven in ten of these had done so in the previous six months.

TABLE 11 **Most recent replacement of new large steel drums by alternative containers**

	%
Never	71
In last 6 months	18
7–12 months ago	7
Over 1 year up to 2 years ago	1
Don't know	3
Total	100
Base	*92*

Source: CC survey.

30. Price was repeatedly mentioned as the main reason that prompted switching from new steel drums to alternatives. However, respondents also gave other reasons, including: customer requirements; storage efficiencies; changing product requirements; environmental factors; availability; disposal; recycling; and greater suitability for their product.

31. We asked what type of steel drum would have been ordered instead of the alternative, and which alternative had been ordered. Only 27 customers answered both

questions and so their responses, shown in Table 12, should be taken as indicative rather than precise. The most common alternatives were IBCs and reconditioned drums, followed by large plastic drums.

TABLE 12 **Alternatives ordered most recently**

count

	Type of large new steel drum would have ordered				*All types*
	Open-head lacquered	*Open-head internally plain*	*Tight-head lacquered*	*Tight-head internally plain*	
IBCs	2	2	2	4	10
Reconditioned large steel drums	2	0	2	5	9
Large plastic drums	0	0	3	2	5
Small steel drums	1	0	0	0	1
Fibre drums	1	0	0	0	1
Bulk packaging	0	0	0	1	1
Total	6	2	7	12	27

Source: CC survey.

Notes:
1. Multiple responses.
2. Low counts: caution should be exercised when interpreting results.

32. Common reasons to choose alternatives to new steel drums were cost, followed by customer requirements. Availability, product suitability, customer service, disposal, collection, recycling and storage efficiencies were also mentioned.

33. We asked for the relative price of the alternative compared with large new steel drums, for an equivalent capacity, when customers had most recently switched. Of course, price may not have been the main reason to switch and the results in Table 13 suggest that for some customers this was the case, since three switched even though the alternative was not cheaper. We have excluded from the table the two respondents who gave multiple responses. These may not have read the question as asking only about the most recent switch. The answers of the remaining 25 customers are indicative of the relative price difference that would be likely to lead these customers to switch in future.

TABLE 13 **Steel drum price compared with alternative, for those who switched**

	Count
Steel drum over 50% more	3
Steel drum 31–50% more	5
Steel drum 11–30% more	6
Steel drum 6%–10% more	5
Steel drum 4%–5% more	2
Steel drum 2–3% more	1
Steel drum 1% more	0
Steel drum same price	1
Alternative 1% more	0
Alternative 2–3% more	0
Alternative 4%–5% more	1
Alternative 6%–10% more	0
Alternative 11–30% more	1
Alternative 31–50% more	0
Alternative over 50% more	0
Total	25

Source: CC survey.

Notes:
1. Low counts: caution should be exercised when interpreting results.
2. Two respondents gave multiple responses and these have been excluded from the table.

34. We also asked what would be the relative price of the alternative to make customers choose large new steel drums. Only 20 customers responded to this question and four of these gave multiple responses, suggesting that the answers were not indicative of the price difference that would be likely to lead these customers to switch back. Therefore, we have not used these results.

35. The majority of respondents identified some barriers to switching to an alternative type of container (around 90 per cent). The majority of these felt that they would be currently prevented from switching to an alternative type of container because of product requirements and regulations. Almost as many respondents also felt that they would be currently prevented from changing because of customer specifications and requirements. There were a few respondents who felt that handling, price and quality would be an issue.

36. We asked for estimates of the percentage, by value, of orders for all large new steel drums that customers could currently switch to alternative containers. Two-thirds of those responding could not switch. Table 14 compares these percentages with

median annual expenditure in order to see whether the level of expenditure is related to the potential to switch. However, the average expenditure estimates are based on small numbers of respondents and are too imprecise to be used as estimates of the average expenditure for all similar customers.

TABLE 14 **The value of orders for new large steel drums that could be switched to alternatives**

Per cent of value could be switched	*Customers* %	*Median expenditure* £'000
None	63	55
1%–5%	11	145
6%–10%	4	120
11%–30%	4	203
31%–50%	2	686
Over 50%	9	310
Don't know	6	129
All respondents	100	95
Base	*90*	

Source: CC survey.

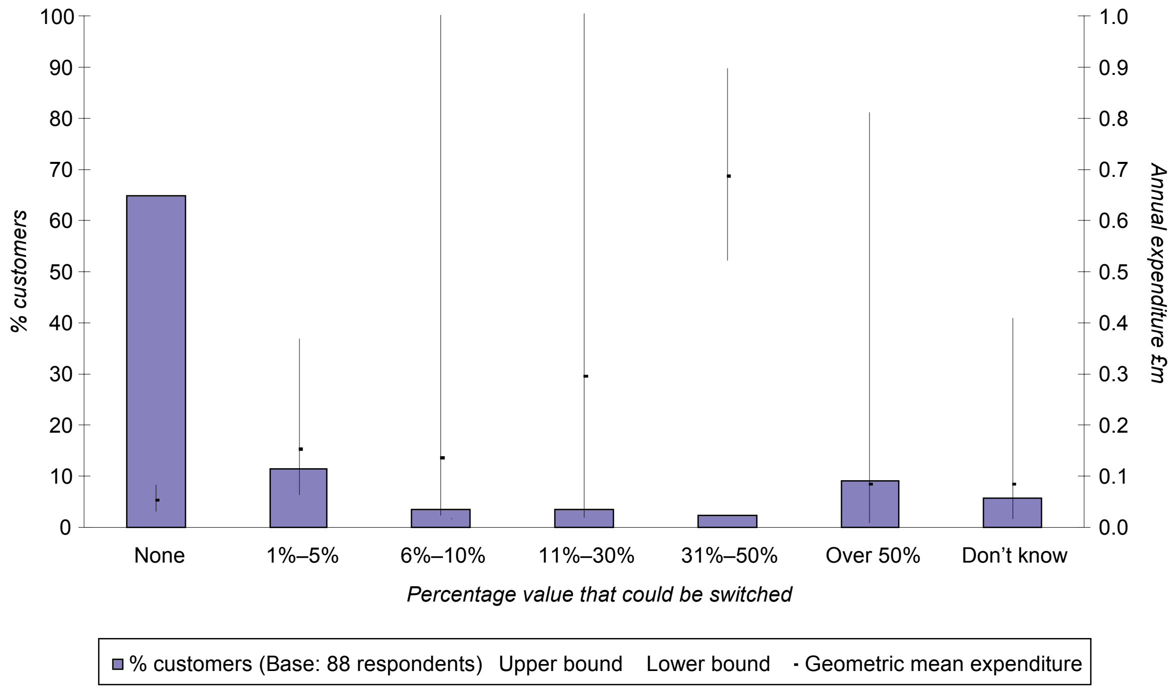
Note: Low counts: caution should be exercised when interpreting results.

37. Similarly, Figure 5 compares potential switching with expenditure by showing the intervals which would be likely to encompass the actual average expenditure.[4] Evidently, there is considerable uncertainty in the expenditures and so it is difficult to infer that the level of expenditure varies consistently with the potential to switch. If there were no relationship between potential to switch and expenditure, then Table 14 would imply that around 10 per cent of all expenditure could currently be switched. However, when we weight each response by the respondent's reported expenditure, we find that 15 per cent of annual expenditure could currently be switched to alternative products.[5]

[4]The geometric mean expenditure is used in the figure, and upper and lower bounds relate to 95 per cent confidence intervals for the geometric mean.
[5]The difference of 5 per cent between the two estimates indicates the magnitude of the error in using these figures to infer the percentage of order value for the population of customers. It is not possible confidently to provide a more precise error estimate since we know that smaller customers were under-represented in the sample.

FIGURE 5

Value of all orders that could be switched to alternatives



Source: CC survey.
Note: Low counts: caution should be exercised when interpreting results.

Use of imports

38. We asked customers if they could name suppliers importing new large steel drums. The great majority (82 out of 106) either did not answer or could not give a name. Three respondents could name only Greif or Blagden as importing from the Netherlands and Belgium, respectively. A further 24 named other importers: 17 mentioned Sulo; seven mentioned Mauser; three James Carrick; one FDL; and one Schütz. We asked what would be the relative price of UK large new steel drums compared with imported large new steel drums that would make customers choose imported steel drums. There were 60 responses to this question, as shown in Table 15. Seven would consider imports for a price differential of 1 per cent; however, since three of these customers were unable to name importers, they might do no more than investigate imports.

TABLE 15 **Price of UK versus imported large new steel drums to consider importing**

UK drums more expensive by up to	*Cumulative %*	*Cumulative count*
1%	12	7
3%	17	10
5%	43	26
10%	72	43
30%	97	58
50%	100	60

Source: CC survey.

39. The majority of respondents (around 80 per cent) identified some barriers to switching to imported drums. Price and availability appeared to be equally important to the respondents. In particular, they were concerned with the longer lead times, additional transportation, warehousing, delivery times; foreign exchange rates would impact the overall cost of new steel drums. They were also concerned about: the quality and specification of imported drums; the quantity they would be required to import (ie full loads only); and how this would impact smaller purchasers.

Competitive rivalry before the merger

40. We asked about the levels of parties' sales and promotional activities before the merger. Table 16 and Figure 6 present the results.

TABLE 16 **Customers' opinions on sales activity before the merger**

per cent

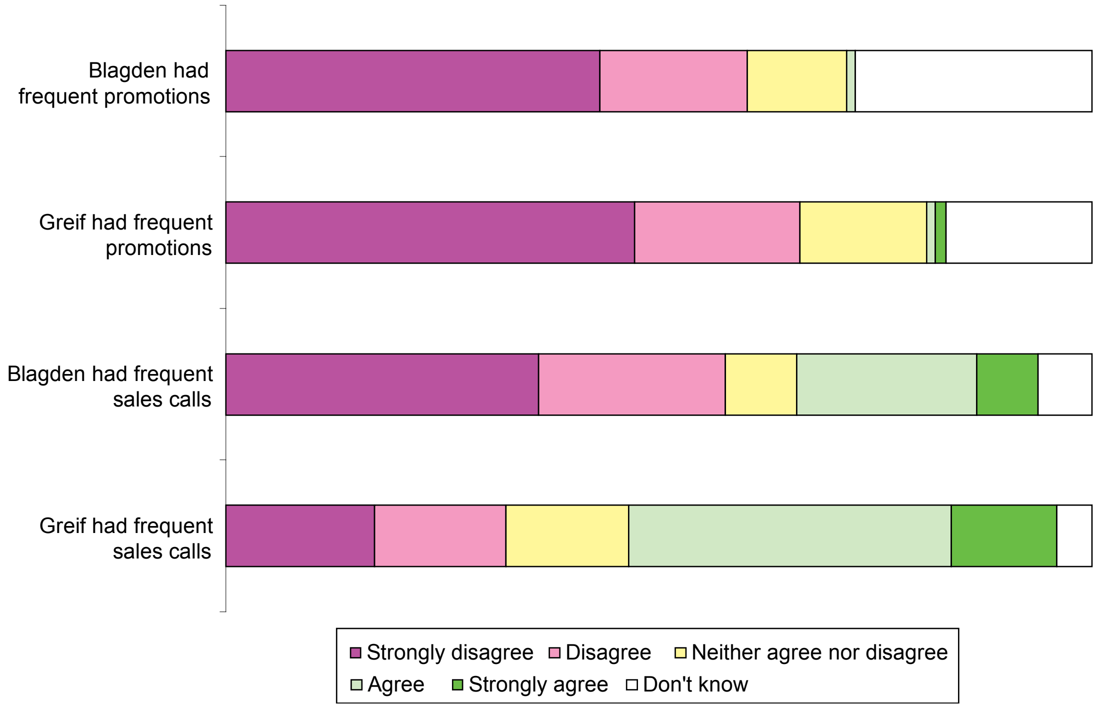
	Frequent sales calls		*Frequent promotions*	
	Greif	*Blagden*	*Greif*	*Blagden*
Strongly disagree	17	36	47	43
Disagree	15	22	19	17
Neither agree nor disagree	14	8	15	11
Agree	37	21	1	1
Strongly agree	12	7	1	0
Don't know	4	6	17	27
Total	100	100	100	100
Base	*95*	*94*	*95*	*94*

Source: CC survey.

41. Promotional activity for both parties had been low according to two-thirds of those responding. Similarly, six in ten thought Blagden sales persons had not called frequently, although half thought they had received frequent sales calls from Greif.

FIGURE 6

Sales activity before the merger



Source: CC survey.

42. We asked whether customers had played off Greif against Blagden: more customers said that they had not than customers who said that they had. Table 17 shows that half had not done so, compared with one-third that had.

TABLE 17 **Whether customers played off Greif against Blagden**

	%
Strongly disagree	32
Disagree	15
Neither agree nor disagree	14
Agree	23
Strongly agree	13
Don't know	3
Total	100
Base	*100*

Source: CC survey.

Potential for switching

43. A variety of responses were given when customers were asked what, if anything, would inhibit them from switching between Greif and Blagden for new large steel drums. Some said:

‘Nothing if price & specifications are equivalent.’

Others mentioned price, others reliability and lead times:

‘We did experience significant supply problems with Blagden …’

availability:

‘Grief often restrictive on colour of packaging.’

Quality was mentioned:

‘Switched from Blagden drums … due to leaking and poor quality drums.’

and a focus on different products:

‘Generally, one company has been more competitive for closed head drums and the other company more competitive for open top drums.’

44. There were also various reasons inhibiting customers from switching from Greif or Blagden to other UK manufacturers of new large steel drums. Price was mentioned:

‘Greif and Blagden have been cheapest drum manufacturer since 2000’

as was service and availability (lead times, innovation, technical capability and support, contingency arrangements and continuity of supply), quality, and product specification to meet regulations.

45. We asked for estimates of the percentage, by value, of current orders for large new steel drums with the parties that customers could currently switch to alternative UK suppliers. One-quarter of those responding could not switch any amount but one-third could switch over half their current expenditure with Greif and Blagden. Almost a further quarter did not know, and this level of uncertainty among respondents suggests that the responses were not reliable predictors of behaviour.

TABLE 18 **Order value that customers could switch from Greif & Blagden to other UK suppliers, by total annual value of orders**

Per cent of Greif & Blagden order value	*% customers*
None	24
1%–5%	3
6%–10%	3
11%–30%	5
31%–50%	6
Over 50%	35
Don't know	23
All responding	100
Base	*93*

Source: CC survey.

46. Nevertheless, we computed a percentage of total order volume implied by these results. To do so we made two assumptions. First, we used the total reported volume of orders from Greif and Blagden as measures of total value. Second, we assumed that those who did not know or could not respond would have acted similarly to those who specified the percentage that they could switch. The result suggests that customers believed that 23 per cent of their orders with the parties could be switched to other UK suppliers.[6]

47. We posited a scenario in which the price of new large steel drums from the merged Greif and Blagden business would increase substantially and asked customers how they thought other customers like themselves would be likely to react. Then we asked for the percentage increase in price that would induce them to react in the way that they had described, and gave the categories of price increase set out in Table 19.

[6]LECG suggested that we remove from this table the responses from 12 companies that did not appear to have placed recent orders with the parties; doing so reduces the incidence to 22 per cent of those who did not know.

TABLE 19 **How much more expensive would Greif and Blagden steel drums be in order for customers to react**

cumulative per cent

	Reaction	
Price increase	*Switch*	*Search or switch*
1%	6	13
2%–3%	10	18
4%–5%	17	39
6%–10%	30	72
11%–30%	38	86
31%–50%	39	87
Over 50%	39	87
Base	*71*	*71*

Source: CC survey.

48. We were interested in assessing the proportion customers who would switch away from the merged Greif and Blagden business, as opposed to those who would react in some other way. However, as we explain next, the results do not provide a reliable indication of behaviour. First, the framing of the questions did not allow us to identify unambiguously those who would switch. Secondly, the high incidence of uncertainty about switching between UK suppliers suggests that the responses are unreliable predictors of switching behaviour.[7]

49. Nevertheless, 71 customers responded to the first question such that they could respond to the second question sensibly. Therefore, we classified the potential reactions of the 71 customers into two mutually exclusive categories: ‘switch’ and ‘search’. The results are shown in Table 18 and suggest that about half those who would react to price increase would do so by switching away from the merged entity. Twelve out of 71 indicated that they would switch in reaction to a 5 per cent price increase: this corresponds to between 10 and 27 per cent of the respondents[8] if statistical sampling error is considered. These results may be indicative of the

[7]LECG suggested that customers who had apparently not placed recent orders with the parties would not be able to answer these questions unambiguously. We found that 7 out of 12 responded unambiguously that they would search for alternative supplies. They are included in the table.
[8]The 95 per cent confidence interval.

proportion of the parties' customers that would react to a price increase but they are not precise figures since there is uncertainty: first, due to statistical sampling error; and secondly, because we are uncertain about the reactions of the large proportion of customers in the sample for whose likely reaction is unknown.

50. The questions proved unsuccessful in providing insights to switching behaviour because we are uncertain about the likely reaction of one-quarter of the sample. This uncertainty was also shown in the responses to the earlier question that asked customers to reveal their propensity to switch between steel-drum suppliers. In Table 17 customers revealed a high level of uncertainty when asked about the proportion of their business that could be switched to other national suppliers: one-quarter of those responding did not know. In contrast, customers were not uncertain about switching to alternative products: Table 13 shows that over 95 per cent of those responding knew the proportion that could be switched to alternative containers. Thus, Table 18 is not a reliable predictor of switching behaviour.

Summary

51. We surveyed the views of the parties' customers and received 106 responses from 102 companies of which 87 had recently purchased drums from the parties. Their average annual expenditure was £83,000. One-fifth had contracts of at least one year for all their orders and six in ten reported that all their orders were one-off.

52. The proportions that had to use particular types of drum ranged from one- to two-fifths. Around one-third of users could not realistically use any alternatives to new large steel drums and 70 per cent of respondents had never switched in the past 12 months. All those that had switched had done so within the last two years, mostly within the previous six months. Price was repeatedly mentioned as the main reason that prompted switching from new steel drums to alternatives. However, the majority

of respondents identified barriers to switching to an alternative type of container and two-thirds of those responding when asked reported that they could not switch.

53. The great majority either could not name suppliers importing new large steel drums or did not answer. Similarly, the majority identified some barriers to switching to imported drums.

54. Before the merger, promotional activity by the parties had been low according to two-thirds of those responding. One-quarter of those responding, when asked if they could switch any of their expenditure with Greif and Blagden to alternative UK suppliers, could not do so. Moreover, a further quarter did not know what they could switch. However, one-third could switch over half their current expenditure.

55. Apparently, over 10 per cent of those responding unambiguously indicated that they might switch from the merged entity in reaction to a 5 per cent price increase. However, further inspection of the results shows that this is not a reliable predictor of switching behaviour because the reactions of a large proportion of the sample were unknown and because customers revealed a high level of uncertainty when asked about the proportion of their business that could be switched between suppliers.