

6 Conclusions

The merger situation

6.1. The reference (see Appendix 1) was dated 30 August 1989. It was made under sections 69(2) and 75 of the Fair Trading Act 1973. We are requested to investigate and report whether arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a merger situation qualifying for investigation. It appeared that enterprises carried on by or under the control of the Myson Group plc (Myson), which is incorporated in the United Kingdom, will cease to be distinct from enterprises carried on by or under the control of Yale & Valor plc (Yale & Valor) and that the value of the assets to be taken over exceeds £30 million.

6.2. Paragraphs 4.2 and 4.3 describe Yale & Valor's intention to acquire Myson.

6.3. As is shown in Appendix 2.2, the value of the assets to be taken over exceeds £30 million.

6.4. We accordingly conclude that arrangements are in contemplation which, if carried into effect, will result in the creation of a merger situation qualifying for investigation. We have therefore to investigate and report whether the creation of the situation may be expected to operate against the public interest.

Concurrent inquiry into the acquisition of Myson by Blue Circle Industries plc

6.5. On the same day as this inquiry began another reference was made to the Commission following Blue Circle Industries plc's acquisition of 29.5 per cent of the issued ordinary shares of Myson and of its proposal to purchase the remaining ordinary shares. We also reported on that inquiry today.

The companies to be merged

Yale & Valor

6.6. Yale & Valor's principal activities are the manufacture of mechanical and electronic locks, door closures, gas and electric heating appliances, other electrical appliances, commercial and industrial kitchens and catering equipment. The group's turnover in the year ended 31 March 1989 was nearly £350 million. The group employs some 7,200 world-wide, of which the United Kingdom gas heating division accounts for some 750 at its Birmingham factory.

Myson

6.7. Myson manufactures gas fires and water heaters, domestic gas boilers and other central heating equipment, electric tumble driers, and industrial and commercial heating and air-

conditioning equipment. The group's turnover in the year ended 31 December 1988 was nearly £170 million. The group employs some 3,600, of whom some 670 make gas fires, gas water heaters and tumble driers at Padiham in Lancashire and around 570 manufacture domestic boilers both gas and oil at Birtley in County Durham and Kirkby near Liverpool.

Reasons for the merger

6.8. Yale & Valor said that the acquisition of Myson's range of central heating products (including gas boilers) would usefully extend Yale & Valor's existing home products business. Yale & Valor was, however, not interested in acquiring Myson's gas fire manufacturing business and was considering its possible disposal. Myson thought that Yale & Valor could use its sales network in the United States to promote Myson's products.

Competition between Yale & Valor and Myson

6.9. The only part of the businesses of Yale & Valor and Myson in which the two groups compete is in the manufacture of domestic gas fires. Yale & Valor's gas fire turnover in the year ended 31 March 1988 was £28.3 million, some 8 per cent of the group's total turnover, and that of Myson for the year ended 31 December 1988 was £8.8 million, some 5 per cent of total turnover. In assessing the impact of a merger on competition we have therefore concentrated on this overlap of the two groups' production.

The relevant market

6.10. We have considered whether there is a separate market for gas fires or whether it would be more realistic to treat gas fires as one of a range of closely substitutable forms of heating which constitute one market for domestic heating appliances. The main relevant factors are discussed in the immediately following paragraphs.

6.11. The customer for a gas fire normally wants the fire to fulfil two functions: firstly to warm a room and secondly to provide an attractive focal point. The first function of a gas fire can be performed by all types of heating. The second has been performed not only by gas fires but also by solid fuel fires and electric fires. In order to increase the appeal of gas fires as focal points there has been the development of live fuel effect gas fires (LFEs) and decorative fuel effect gas fires (DFEs) (see paragraph 3.6).

6.12. Some other forms of focal point heating are less convenient than gas in terms of cleanliness, fuel deliveries etc. This is especially true of solid fuel fires, and has been a major factor in their decline. Electricity, however, is perceived as being just as convenient and clean as gas.

6.13. Gas fires need some form of flue, usually a chimney or a flue taken through a suitable outside wall. Gas fires also have usually to be installed by a specialist. Some other types of fire, in particular electric fires, do not normally require specialist installation, and this clearly enhances their attractiveness as against gas fires.

6.14. The cost of heating includes the initial purchase of the appliance, its installation, maintenance, and expenditure on fuel. For most of the period since the mid-1970s the running costs of gas heating have been lower than those of other forms of heating. In recent years the costs of oil and, to a lesser extent, electricity, have moved closer to those of gas.

6.15. A further factor is that the reduction in heat loss achieved by improved insulation has made electricity relatively more competitive against other forms of fuel.

6.16. Central heating's perceived convenience has been a major factor in its growth as a form of heating. Given its high initial cost compared to focal point heaters, it seems unlikely that small

changes in gas fire prices would be crucial in consumers' choice between gas fires and central heating, ie there is probably limited direct pressure on gas fire prices from central heating.

6.17. While we have therefore examined the issues against the background of all forms of domestic heating, we consider that there is a separate market for domestic gas fires, including wall heaters (even though the latter do not provide a focal point see paragraph 6.11).

6.18. We recognise that some 20 per cent of gas fires form part of gas fuelled back-boiler central heating units. We think that back-boilers form part of a separate central heating market.

6.19. In 1988 total sales of gas fires (including wall heaters) in the United Kingdom were 890,000 units, with a value of around £100 million (at wholesale prices); 140,000 units were gas wall heaters and 150,000 units were DFE fires. Since 1985 total annual United Kingdom sales of gas fires (including wall heaters) have been broadly static. Within the total, sales of DFE fires have increased while those of traditional radiant/convector fires have fallen.

The issues

6.20. Our main concern was the impact of the proposed merger on competition in the market for gas fires. Furthermore, we considered the effects of the merger on employment and research and development.

Competition

6.21. The aspects of competition to which we devoted particular attention were:

- (a) the impact of a combination of Yale & Valor's and Myson's shares of the gas fire market;
- (b) the effectiveness of British Gas's position as the dominant retailer in countering any threat to competition arising out of a Yale & Valor/Myson merger;
- (c) the scope for new entry into the United Kingdom gas fire market, whether by manufacture or through imports; and
- (d) the consequences of Yale & Valor's entry into the gas boiler market.

6.22. Our starting point in assessing the impact of the proposed merger on competition was that of the share of the gas fire market which Yale & Valor and Myson would possess 35 per cent if the combined group were to retain the present market shares of its predecessors. The calculation of this market share excluded gas fires used by makers of back-boilers (which, as we explained in paragraph 6.18, we consider to be part of a separate market).

6.23. A market share of 35 per cent for the combined group would be much larger than the share at present held by any of Yale & Valor's and Myson's competitors Robinson Willey (15 per cent), Flavel and Kohlangaz (12 per cent), Baxi (10 per cent), Cannon (8 per cent) and Glow-worm (3 per cent), with their well-established brand names. There is no reason to expect any increased competition in traditional gas fires from a growth in imports.

6.24. The market shares of gas fire manufacturers can change considerably for example, Myson's fell sharply from 18 per cent in 1984 to 10 per cent in 1988, whilst Cannon's (GEC) has grown from

5 per cent in 1984 to 8 per cent in 1988. Myson's decline could continue, even under new management. It was put to us (see paragraph 4.4) that a merged group would be likely to retain a somewhat smaller share of the market than the joint shares of its predecessors because of British Gas's market dominance as a buyer, its wish to rationalise the products that it stocked, as well as continued competition from other suppliers.

6.25. There do not appear to be any significant barriers to entry into the manufacture of gas fires within the United Kingdom, and any new entrant would be able to limit the necessary capital investment by the employment of engineering sub-contractors to supply a wide range of components. Manufacturers of other forms of gas appliances in particular should not find it difficult to enter the gas fire market.

6.26. The existence of a big manufacturer, faced with four main but significantly smaller competitors (Robinson Willey, Flavel and Kohlangaz, Baxi, and Cannon), and no great volume of imports competing with its main product ranges, would obviously give rise to fears that the large supplier would exploit its size to dominate the market. We do not expect, however, that this will happen. Our main reason is the control of the market exercised by British Gas, which we have explained in some detail in paragraphs 3.28 to 3.32. About three-quarters of all traditional gas fires are sold by British Gas which will naturally seek to safeguard and enhance the profitability of its retail operation. It could thus be expected to resist any attempt by a merged group to exploit its market position. Moreover, British Gas sells gas fires not only to make profits as a retailer, but also to promote the use of gas as a domestic fuel. That again encourages British Gas to maintain the competitiveness of gas fires. British Gas is especially wary of competition from electric fires, readily available from many outlets; the success of its showroom activities and the volume of gas sales are both affected adversely when potential customers choose electric rather than gas fires.

6.27. A second consideration is the size and strength of the parent companies of three of a combined group's main competitors GEC of Cannon, Glynwed of Flavel (and Kohlangaz) and Hanson of Robinson Willey.

6.28. A further relevant consideration is that the expanding sector of the gas fire market is the DFE. So far British Gas has not sold DFEs although we understand that it will soon do so. Neither party to the proposed merger has hitherto been active in the DFE market although both intend to become so. Experience suggests that barriers to entry into the manufacture of DFEs are even lower than those applying to gas fires, and it is in this sector that imports have made most headway. The growth of the DFE market can be expected to continue to provide strong competition to manufacturers operating in the traditional gas fire market, including a merged group. Moreover, even if a merged group were to secure a significant share of the DFE market it would face a range of active competitors.

6.29. Finally we considered the consequences for competition in the domestic gas boiler market of Yale & Valor's entry into this market, in which Myson's present market share is 13 per cent. As Yale & Valor has a successful record of manufacturing and selling a wide range of domestic appliances, its involvement in the manufacture and marketing of gas central heating boilers could well increase competition in that market.

Employment

6.30. If the merger took place and Yale & Valor were to retain Myson's gas fire business despite its present lack of interest (see paragraph 6.8), there might be some rationalisation of gas fire production, with a consequential loss of employment. To some extent this might be compensated by Yale & Valor's ability to devote more resources to Myson's other activities. If Yale & Valor were

to sell Myson's gas fire business, rationalisation might not necessarily occur. Overall we do not expect the proposed merger to affect significantly the level of employment.

Research and development

6.31. We noted the importance which the parties to the proposed merger attached to research and development. We were struck by the views expressed to us (see paragraphs 4.10 and 4.20) about the shortage of research and design staff. This shortage, rather than lack of finance, has been a limiting factor in research and development activities. We consider that the proposed merger is unlikely to reduce the scale of research and development.

Conclusion

6.32. For the reasons described in paragraphs 6.22 to 6.31, we have concluded unanimously that the merger situation which we have identified may be expected not to operate against the public interest.

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29 November 1989