4 The views of Ransomes

Reasons for the acquisition

4.1. Ransomes told us that in the mid-1980s (by which time it had two main businessescommercial grass-care machinery and farm machinery) it had decided to extend its range of grass machinery from its historic concentration on commercial grass-cutting equipment into the market for domestic mowers. Ransomes believed that this wider product range would enable it to compete more effectively against its main international competitors, most of whom then already manufactured equipment for both the domestic and commercial markets. Consequently, in 1985 Ransomes acquired Mountfield which sold petrol-powered and electrically-powered walkbehind rotary mowers and ride-on mowers. Mountfield did not, however, manufacture the ride-on mowers itself, except for a small number of Mountfield Triple M cylinder machines. It imported Murray models from the United States which it had previously sold alongside the Wheel Horse range of ride-on mowers (the latter distributorship was terminated when Ransomes acquired Mountfield). At that time Murray machines were not fully suited to the United Kingdom market: for example, they did not provide for grass collection, although this feature was added later. From 1987 a limited range of Simplicity machines was imported from the United States by Mountfield, aimed mainly at the upper end of the ride-on mower market.

4.2. Ransomes explained to us that Mountfield lost the Murray franchise in September 1988 when Murray was acquired by a United Kingdom group, Tomkins, and the marketing in the United Kingdom of the Murray ride-on mowers was taken over by Tomkins' United Kingdom mower subsidiary, Hayters. Ransomes said that the loss of the Murray franchise left Mountfield with a significant gap in its product range: in the ride-on sector it was left with only the limited range of Simplicity mowers. Accordingly, Mountfield's success in the ride-on market was limited. Ransomes was anxious to fill this gap, both to replace the loss of the Murray business and to enable Mountfield to offer a more complete range of products in the domestic mower market.

4.3. Ransomes also told us that a fuller range was needed to enable it to pursue its objective of expanding into the continental European domestic mower market. Ransomes explained that, to market mowers in those parts of the Continent where it had no local subsidiary, it needed to appoint a local distributor responsible both for the overall marketing of the product in the country concerned and for ensuring that the necessary servicing and spare parts back-up was available locally. It was difficult to find distributors who were willing to handle a partial range of products and to market them energetically. The gaps in the range made the proposition unattractive to distributors because either they encountered difficulty in finding retailers willing to buy a partial range or they were forced to try to fill the gaps in the product range by importing machines from elsewhere. Ransomes told us that this put it at a disadvantage because other manufacturers were able to supply a full product range.

4.4. In June 1989 Ransomes became aware that Mr Hazlewood, the owner of the majority of the shares of Westwood and Laser, wanted to dispose of the business and negotiations for the acquisition began. A foreign manufacturer was also interested in purchasing the business but Ransomes succeeded in reaching agreement with Mr Hazlewood and the acquisition was completed on 24 August 1989.

4.5. Ransomes said that the acquisition of Westwood provided an ideal and complementary fit by giving it for the first time a manufacturing capability in ride-on mowers and thus filling the gap in its product range, without the cost, delays and uncertainties that would have been involved in developing its own ride-on mower. The acquisition also provided scope for rationalising the domestic mower manufacturing operations of Mountfield and Westwood.

Consequences of the merger

4.6. Originally Ransomes thought the integration of the Mountfield and Westwood operations would take up to two years, but poor trading conditions during the dry summer of 1989 prompted it to take early action to integrate the manufacturing operations as part of a cost savings programme. This led to the transfer of the Mountfield manufacturing operations from Maidenhead to the Westwood site at Plymouth and the combination of the Mountfield and Westwood operational and management activities, apart from the sales and marketing functions. Mountfield's former site at Maidenhead is in the process of being sold.

4.7. The merger and the subsequent integration of the two operations resulted in few management changes. Ransomes Consumer Division was created to encompass the Mountfield and Westwood operations in the United Kingdom and is the responsibility of a Ransomes main board director. Ransomes explained that, because of distance, only 14 Mountfield management and administrative staff transferred from Maidenhead to Plymouth. Of the remainder of the Maidenhead workforce, 22 development and administrative staff moved to offices at Bourne End, a five-man sales team was retained and 120 production and office personnel were made redundant at a cost of £237,000. Ransomes pointed out that there had been a compensating increase at Plymouth of some 100 production workers, all of whom were recruited locally; and that most of the Maidenhead employees made redundant had since found new employment.

4.8. To cope with the expanded manufacturing operations at Plymouth, Ransomes has rented temporary warehousing facilities pending the construction of a 50,000 square feet extension to the Plymouth plant.

4.9. Ransomes told us that the Mountfield, Westwood and Laser branded products continue to be sold through the separate dealer networks that existed before the acquisition. These networks vary in size reflecting, in part, the different volumes of machines sold. Ransomes has not yet decided whether to amalgamate or make other changes to these dealer networks.

Future plans

4.10. Ransomes explained that it saw scope for further improving efficiency and developing its domestic mower business. Ransomes is currently reviewing Westwood's policy of manufacturing in-house as many components as possible in the light of the experience at Mountfield that, partly because of the seasonal nature of the business, it was often better to buy-in components from external suppliers, particularly when this was linked to a `just-in-time' system of ordering and delivery. Ransomes said that any such change would depend on it being able to identify suitable local suppliers with whom it could work closely and would be introduced gradually.

4.11. Ransomes said that the product ranges of Mountfield, Westwood and Laser were unlikely to be significantly affected by the merger, apart from the termination of Westwood's agreement to distribute in the United Kingdom IBEA walk-behind mowers imported from Italy. (The marketing in the United Kingdom of this brand of mower is now undertaken by another importer.) Ransomes does, however, intend to combine its own sales and marketing operations for the Mountfield, Westwood and Laser brands at the level of sales, servicing and distribution administration; but has not reached a decision on the field sales force. As noted in paragraph 4.9, Ransomes has not yet decided whether to make any changes to the dealer networks.

4.12. Ransomes explained that there is considerable scope for expanding its marketing efforts on the Continent, and it plans to build on the links which Mountfield and Westwood have already individually established to sell the wider range of products of the combined group.

Effect of the merger on competition

4.13. Ransomes said that the acquisition of the Westwood business would not lead to a material increase in its market share in the ride-on mower market (and no increase in its share of petrol-powered mower sales) and otherwise would have no detrimental effect on competition. Ransomes drew attention to the existence of strong domestic and international competitors already operating in the market; the comparatively low barriers to entry to the market; and the freedom of its dealers to sell competing products.

Domestic mower market

4.14. Ransomes contended that in the walk-behind mower market the merger resulted in no increase in its market share because, although Westwood used to sell a small number of imported IBEA machines, that arrangement had been terminated. In the ride-on mower market, Ransomes claimed that the addition of Mountfield's market share to Westwood's share was not a material increase and involved no significant reduction in competition, especially as Mountfield's market share largely represented sales of Simplicity machines which, although forming part of the total market for ride-on mowers, do not compete directly with the Westwood range. (Ransomes also said that its latest market figures, based on sales to dealers, were affected by the market conditions of 1988 and 1989, which had resulted in an unusually high market share of Mountfield (Simplicity) machines which it did not think could be sustained.) Moreover, Ransomes commented that this increase in market share partly represented its recovery of the market share it had held in 1988 when, through its sales of Murray ride-on mowers, it accounted for an estimated 15 to 20 per cent of the ride-on mower market. Ransomes also pointed out that in the mid-1980s Westwood had had a market share significantly higher than it currently holds.

International competition

4.15. Ransomes told us that competition in petrol-powered walk-behind and ride-on mowers had increased significantly in recent years, especially from large international firms which had entered the United Kingdom market or had sought to increase their share of it. These international firms were, according to Ransomes, major North American and Japanese manufacturers that benefited from significant economies of scale which enabled them to justify investment in expensive tooling and presses. In the case of the United States manufacturers, such as MTD, Murray, YardPro and Toro Wheel Horse, these benefits stemmed from their ready access to a large home market; whereas for the Japanese manufacturers, such as Honda and Mitsui (Yamaha), the benefits arose from their wider range of interests in other engineering products and the scale of the research and development, production and marketing capabilities which this involved.

Barriers to entry

4.16. Ransomes told us that the barriers to entry for new competitors in the mower market were low. There were no significant patents for walk-behind mowers or ride-on mowers; neither was the common external tariff of 3.5 per cent a significant obstacle to non-Community manufacturers. A local spare parts and servicing facility needed to be offered, especially for the bigger machines, but this was usually provided through the dealer network as part of the sales package. The major obstacle to new entry, Ransomes said, was the capital investment needed to develop, manufacture and market a product and to succeed in a market which was already subject to vigorous competition. Ransomes pointed out, however, that this financial hurdle had not deterred a number of international groups from entering the United Kingdom market. Ransomes drew attention to six United Kingdom and foreign firms (see paragraph 3.41) that had entered the United Kingdom market for ride-on mowers in the last two years, being mainly manufacturers of walk-behind mowers or agricultural tractors who had extended their product ranges.

Dealer networks

4.17. Ransomes explained that its dealers were independent businesses which were free to decide which product ranges they wished to carry. The Mountfield, Westwood and Laser main dealer agreements contained no restrictions on the freedom of the dealer to stock competing products and, in fact, most dealers stocked a range of competitors' products. Ransomes estimated that no more than 10 to 25 per cent of the turnover of a typical main dealer was accounted for by the Ransomes group's domestic products. Furthermore, Ransomes said that there were a substantial number of other dealers that did not carry the Mountfield, Westwood or Laser ranges which provided outlets for both actual and potential competitors.

4.18. Ransomes commented that, following the poor trading conditions of 1989, it was asked by some of its Mountfield dealers to include a provision in the Mountfield dealer agreement for the 1989/90 season requiring a main dealer not to supply other outlets at a discount higher than a specified maximum. Ransomes is reviewing this provision together with the provisions in the Westwood dealer agreement that require a dealer to limit any discount given to a retail customer to 7.5 per cent and provide a small incentive if, inter alia, this requirement is met.

Other issues

4.19. Ransomes' declared intention is to develop further its overseas businesses, including, in the domestic lawnmower sector, its business in continental Europe. As mentioned in paragraph 4.3, its ability to offer a fuller product range to continental distributors was a significant factor in its decision to acquire Westwood. Ransomes explained, however, that it saw the United Kingdom as its most important market and that success elsewhere in Europe would enable it to develop further its domestic products to the benefit of customers both there and in the United Kingdom.

4.20. Ransomes also said that its main European manufacturing base for domestic mowers will be at Plymouth and that for commercial grass-care equipment at Ipswich. Following the transfer of Mountfield operations from Maidenhead, there had been an increase in employment at Plymouth from 280 to 400, thus taking employment back to the levels achieved at that site in early 1989 before Westwood was forced to declare redundancies there in June 1989. Ransomes considered that long-term employment prospects at Plymouth had improved considerably following the merger and it would be seeking to improve some aspects of remuneration and working conditions at Plymouth to bring them more into line with the higher standards at Ipswich.