

Razors and razor blades

A report on the supply in the United Kingdom
of razors and razor blades for wet-shaving use



THE MONOPOLIES AND MERGERS COMMISSION

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of razors and razor blades for wet-shaving use

**Presented to Parliament by the Secretary of State for
Trade and Industry by Command of Her Majesty
March 1991**

**Members of the Monopolies and Mergers Commission as at
12 December 1990**

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¹These members formed the group which was responsible for this report under the chairmanship of Mr M S Lipworth.

Note by the Department of Trade and Industry

In accordance with section 83(3) and (3A) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest, or which he considers would not be in the public interest to disclose and which, in his opinion, would seriously and prejudicially affect certain interests. The omission is indicated by a note in the text.

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1 Summary

1.1. On 14 June 1990 we were asked to investigate whether a monopoly situation existed in the supply of razors and razor blades for wet-shaving use and, if so, to consider the effect on the public interest of financial and other arrangements for the leveraged buy-out of the Consumer Products Division (the CP Division) of Stora Kopparbergs Bergslags AB (Stora) (see Appendix 1.1). The Wilkinson Sword businesses (Wilkinson Sword) were part of the CP Division. The buy-out vehicle was a shelf company later to be called Swedish Match NV. Finance was provided by a number of Swedish investors, banks and finance houses, together with The Gillette Company and its subsidiaries (collectively referred to as Gillette). Some of the senior management of the CP Division also participated.

1.2. Gillette is the largest supplier of razors and razor blades in most of the world's major economies. Its United Kingdom market share is 60 per cent by value and 40 per cent by volume, while that of Wilkinson Sword (its only full range competitor) is 20 per cent by value and 23 per cent by volume. The only other supplier of significance in the United Kingdom is Biro Bic Ltd (Bic), which just supplies disposable razors and has a market share of 15 per cent by value and 30 per cent by volume.

1.3. Gillette played the central role in the initiation and development of the buy-out arrangements. It told us that its objective was to acquire as much of the Wilkinson Sword wet-shaving businesses throughout the world as was permitted by competition authorities. As part of the transactions Gillette acquired the non-EC businesses of Wilkinson Sword; subsequently, following anti-trust action by the US authorities, the US business was resold to Swedish Match NV. Gillette told us that it structured its involvement so as not to have any influence over the new company, Swedish Match NV, because of concern about possible action by competition authorities.

1.4. Gillette did, however, retain important rights and interests in Swedish Match NV. It took a holding of 22 per cent of the equity of the company in the form of non-voting convertible loan stock. This holding could convert to voting shares in certain circumstances. Gillette also provided almost \$69 million in mezzanine debt, although it is bound to follow the other creditors on matters such as enforcement. Gillette also has pre-emption rights, either for itself or for a person nominated by it, to acquire the equity of Swedish Match NV where a sale or listing on a stock exchange is proposed and to acquire the wet-shaving businesses and assets of Wilkinson Sword in the event of their sale.

1.5. We found that a monopoly situation existed in favour of Gillette UK Ltd (Gillette UK), Gillette Industries Ltd (Gillette Industries) and The Gillette Company. The main public interest issue we considered was whether the existence of these rights and interests, whether considered alone or together with Gillette's actions in setting up the transactions, was likely to have implications for competition in the United Kingdom wet-shaving market. This issue was also raised in a concurrent merger reference made to us by the Secretary of State for Trade and Industry arising out of the same transactions.

1.6. In our view a prudent Wilkinson Sword management would be bound constantly to take into account the fact that Gillette was a major shareholder in its parent company, Swedish Match NV, was its parent company's largest creditor and had important rights in relation to significant decisions affecting the future of the company, notwithstanding the limits to Gillette's rights. Moreover, we considered that the structure of the transactions, as effectively determined by Gillette, was likely to reduce the competitiveness of Wilkinson Sword, by placing a heavy burden of debt on Swedish Match NV. We therefore expected that Wilkinson Sword would compete less aggressively with Gillette. We also considered that Gillette's competitive position had been enhanced *vis-à-vis* Wilkinson Sword as a result of its involvement in the transactions.

1.7. Further, we considered it to be against the public interest for Gillette to have a significant influence over the potential flotation of its principal competitor in the United Kingdom, or the sale of its shares or assets, particularly as its pre-emption rights could enable Gillette to prevent transactions which would further competition.

1.8. We did not believe that any new entry or development of existing suppliers would be likely to check the diminution of competition in the United Kingdom and did not identify significant benefits from the transaction. Undertakings to the US authorities given by Gillette reduced the adverse effect to some extent, but they did not remove our concerns.

1.9. We have therefore recommended that Gillette should divest its equity and creditor interest in Swedish Match NV and, pending divestment, should waive its pre-emption and conversion rights and options.