

**Sara Lee Corporation
and
Reckitt & Colman plc**

A report on the acquisition by the Sara Lee Corporation
of part of the shoe care business of Reckitt & Colman plc



MONOPOLIES AND MERGERS COMMISSION

Sara Lee Corporation and Reckitt & Colman plc

A report on the acquisition by the Sara Lee Corporation of part of the shoe care business of Reckitt & Colman plc

**Presented to Parliament by the Secretary of State for
Trade and Industry by Command of Her Majesty
August 1992**

Members of the Monopolies and Mergers Commission as at 17 June 1992

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¹These members formed the group which was responsible for this report under the chairmanship of Mr P H Dean.

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 4 October 1991 a subsidiary of the Sara Lee Corporation (Sara Lee) acquired part of the shoe care business of Reckitt & Colman plc (Reckitt & Colman), including the Cherry Blossom and Meltonian brands. Sara Lee already possessed the Kiwi brand, among others. On 13 March 1992 we were asked to investigate the completed merger (see Appendix 1.1).

1.2. Shoe polish products are a small but complex market, worth about £13.5 million a year at manufacturers' prices or double that figure at retail prices. Demand is static or declining. As a result of the merger Sara Lee's market share increased from 24 to 53 per cent. The next largest supplier, Punch Sales Ltd (Punch), a subsidiary of an Irish company, has 26 per cent; and there are a few other suppliers, each with a share of under 6 per cent. The market comprises a number of different products: pastes, liquids, creams, sponges and others; and is divided into two sectors: the *special trades*, comprising shoe retailers, shoe repairers and the wholesalers who serve them, and *self-selection*, in which the well-known supermarket chains are prominent. About 57 per cent of sales are through the special trades and about 43 per cent through the self-selection sector.

1.3. In the special trades, where retail prices are higher, Sara Lee was relatively weak before the merger and competition was chiefly between Reckitt & Colman and Punch. Following the merger, Sara Lee's share of this sector is 37 per cent. Punch has 38 per cent, another supplier 10 per cent and each of five others 5 per cent or less. In this sector of the market there is effective competition among the existing suppliers, and entry is relatively easy.

1.4. In the self-selection sector, Sara Lee's share has risen as a result of the merger from 44 to 74 per cent. The only other suppliers are Punch, Carr & Day & Martin Ltd (CDM) and S C Johnson & Co Ltd (S C Johnson), each with under 10 per cent.

1.5. The main issue in the inquiry is the effect of the merger on competition in the self-selection sector of the market. There are no formal barriers to entry, but an important practical barrier is the strength of the long-established and widely familiar brand names, especially Kiwi and Cherry Blossom. Having considered the prospects of expansion by the existing suppliers, and of entry to the United Kingdom market by continental European producers, we conclude that the only realistic possibility of competition is from own-label sales, at present confined (among the leading grocery supermarkets) to J Sainsbury plc (Sainsbury). Shoe polish products are low-value items, infrequently purchased, and demand is largely insensitive to price. Sales volumes are low. In these circumstances, and given the strength of the Kiwi and Cherry Blossom brands, there is limited countervailing power on the part of the supermarkets, nor do they have much incentive to constrain price increases by introducing own-label products or otherwise. On the evidence which we have received there is scope, following the merger and the loss of competition between the two dominant brands in this sector, for a substantial increase in prices before Sara Lee's high market share is put at risk.

1.6. We do not believe that the benefits of the merger, including the benefit to employment at Honley, outweigh the expected adverse effects of loss of competition and higher prices. We conclude, therefore, that the merger may be expected to operate against the public interest. We recommend by way of remedy that Sara Lee should be required to divest itself of the Cherry Blossom brand.

1.7. One member of the group, Professor A P L Minford, dissents from our conclusions. While accepting that Sara Lee's share in the self-selection sector of the market is high, he sees no detriment to competition because there are many alternative suppliers and the supermarket buyers have strong bargaining power. Moreover the remedy proposed might, he believes, disrupt operations and threaten the future of the Honley plant. Professor Minford has set out his views in a note of dissent following Chapter 6.