

5 Views of other parties

5.1. We sought the views of Reckitt & Colman, suppliers, customers (self-selection outlets, wholesalers, shoe retailers and shoe repairers) and other parties. In this chapter we summarise the views of those who responded. Nine attended hearings at the MMC: Reckitt & Colman, Punch, CDM, Mars Oil, Tesco, Charles Birch Ltd, BSC, Timpson and *Shoe and Leather News*.

Reckitt & Colman plc

5.2. Reckitt & Colman (see paragraphs 2.23 ff) told us that applied shoe care was a small fragmented market which could be split into two parts (albeit with some overlap), each with its own distribution channels. The first comprised mainly black and brown wax polishes in flat tins, used chiefly on men's shoes and sold predominantly through supermarkets and grocery stores. The second comprised specialist products distributed through shoe shops and shoe repairers. These products included wider ranges of creams in many different colours used on women's fashion shoes.

5.3. Reckitt & Colman believed that for many years the total market had been in gradual decline. This long-term trend could be attributed to a number of factors including less exposure of shoes to rain and dirt because of greater use of cars and one-stop covered shopping; less importance attached to having well-polished shoes; and more wearing of informal shoes such as trainers. These factors had been influencing the market for many years and had now probably flattened out. The market was therefore static in volume terms, with prices increasing at about the rate of inflation.

5.4. Although Reckitt & Colman had not actively sought a buyer, it had been prepared to consider disposing of the part of its business acquired by Sara Lee for the following reasons:

- (a) low gross margins;
- (b) unsatisfactory trading performance (the business lost about £0.5 million in 1990 and would have lost about the same in 1991);
- (c) lack of growth potential;
- (d) complexity of the business, with some 600 product lines, resulting in much lower sales per line than in any other of Reckitt & Colman's United Kingdom businesses; and
- (e) substantial dependence on specialist distribution channels, whereas Reckitt & Colman preferred to focus its selling resources on those outlets through which virtually all its other products were sold—grocery outlets and chemists.

Economies of scale

5.5. There were few economies of scale in production, and any benefits obtained would probably be offset by increased stockholding costs. Reckitt & Colman did not believe that shoe care production technology was such that it was possible to purchase equipment that would run much faster or was more automated. Significant increases in volume could be achieved only by extending hours of working. However, increased volume of materials purchased might enable lower prices to be obtained. Questioned

further about this at a hearing Reckitt & Colman acknowledged that there might be some economies of scale to be had in paste production by putting together the Sara Lee and Reckitt & Colman throughput.

Distribution and competition

5.6. Reckitt & Colman used public distribution systems (including parcel post) except for a special arrangement for daily deliveries to the warehouse of its largest customer, the shoe repair chain Mister Minit. It had not viewed distribution as a key competitive issue, apart from the overriding principle that customers expected reliable delivery.

5.7. In response to general pressure in the trade towards reducing the number of suppliers and improving trading margins, Reckitt & Colman had entered into a number of arrangements with major customers whereby in return for favourable trading terms, exclusivity or partial exclusivity was granted.

5.8. Competition was determined mainly by price: manufacturers tended to use price as a major element of marketing, the grocery trade and part of the specialist trade negotiated strongly on price, and there was little or no consumer advertising, mainly because the size of the market and its profitability and growth potential were unlikely to yield an economic return. However, importance still attached to brand names, many of which had been established for a very long time. Consumers probably did not discern much quality difference between brands; there was a trade-off in their minds between 'traditional' quality which might favour brands like Kiwi and Meltonian against 'modernity' which might favour brands like Punch and Brillo.

5.9. One element of brand loyalty was that in the armed forces Kiwi was part of 'spit and polish'. Following the end of national service, that factor was working its way out of the population.

5.10. Margins of around 60 per cent or more in the specialist shoe repair trade were not uncommon. Margins were nothing like as high in the grocery trade. Purchasing by the consumer was so infrequent that traditional pricing mechanisms were irrelevant. One reason why supermarkets had not gone into own-labels was the size of the market; another was that perhaps they did not feel they could get sufficiently far below the current price of the brands to open up enough differential to make their products attractive.

Entry

5.11. The investment in plant would not be high, but the cheapest way to enter the market would be to use a contract packer and a selling agent or contract sales force. The grocery trade required only a few product lines and there were relatively few buying points. However, to promote a new brand would need consumer and trade advertising which would be justified only if the new product had some performance or convenience story to offer. Shoe polish tended to be a low innovation market, although the sustained success of liquid self-shine applicator packs and the initial success of sponge shiners showed that the market was receptive to new presentations. This was because shoe cleaning was seen as messy and time-consuming, and a product which overcame these drawbacks and offered an acceptable level of performance was therefore likely to be successful.

5.12. Entering the specialised shoe trade market was likely to be more difficult. It tended to be less price-sensitive and brand names counted for more than in the grocery trade; it also ideally required a full range of products. However, Punch had shown that a new entrant focused on this category could be successful.

5.13. There were few technical obstacles to entry. Anybody already making wax-based products, whether solid or liquid, would have the know-how.

Effects of the merger

5.14. In the specialist sector, the acquisition of Meltonian would have very little effect, because Sara Lee did not previously market a significant range of shoe creams or accessories. In the grocery trade, the price level would continue to be determined primarily by the power of the retailers to negotiate terms for solus stocking of the leading brand, and by the prices, in some cases, of their own-label products. The main supermarket chains generally stocked mainly one brand; to that extent, therefore, consumers' choice at point of sale should in practice be little affected. If, as was likely, these chains wanted to encourage further competition, other United Kingdom manufacturers and importers could well benefit from the merger. Consolidation of all production on one site should be more efficient than manufacturing in two separate factories with low volumes.

5.15. At a hearing with the MMC, Reckitt & Colman said that the shoe care businesses it was retaining in many overseas countries amounted to about four times the value of those disposed of to Sara Lee, but the only country in continental Europe in which it had a significant shoe care business was Spain.

5.16. Asked whether Sara Lee would not be able to increase prices following the merger, Reckitt & Colman said that pressure from the supermarkets (to which Sara Lee sold other products also) would deter it from doing so. In terms of total negotiating strength, the fact that it had two brands of shoe polish did not put it into a dominating position. Predatory pricing, in Reckitt & Colman's opinion, would not work, nor would it be in Sara Lee's interests.

5.17. Asked about the claim by Transport and General Workers' Union and Manufacturing, Science and Finance union representatives (paragraph 5.151) that additional redundancies had been created in an area of high unemployment, Reckitt & Colman said that, at the time of the hearing, of 60 full-time blue collar workers affected, 14 had been redeployed and 38 had been offered redeployment but preferred to take voluntary redundancy, as had also 11 part-time employees. Of the 36 white collar workers, 10 had been redeployed, 4 had accepted jobs with Sara Lee and 13 had accepted voluntary redundancy. Fourteen people were still employed in the remnants of the shoe care division. There had been only three compulsory redundancies.

5.18. Asked about hypothetical remedies, Reckitt & Colman thought that it would clearly be easier to divest Cherry Blossom than Meltonian. One of the existing players in the market might like it to get a stronger brand name, or it might be of interest to an overseas buyer if it helped their critical mass in the United Kingdom.

Suppliers

Punch Sales Ltd

5.19. Punch is a distributor of shoe care products, footwear accessories and homecare products. Its turnover in 1991 was £7.3 million, of which £4.1 million was accounted for by applied shoe care. It is a wholly-owned subsidiary of an Irish company and nearly all its products in this category are imported from the Irish Republic. Approximately 50 per cent of the raw materials and packaging for these products are imported from Great Britain.

The market

5.20. Punch told us that the market for applied shoe care was serviced principally via two distribution channels, grocery outlets and shoe retail and repair outlets. In addition, there was some distribution to department stores, Woolworths and other shops.

5.21. Consumers regarded applied shoe care products as mundane necessities. There was no evidence that demand was related to price. While an inordinately high retail price would depress sales, there was little evidence that they would be significantly stimulated by a price reduction.

5.22. There was considerable brand recognition but limited brand loyalty. The brand appeared to be more important to the retailer than the consumer, who would in the vast majority of cases accept what was displayed in the retail outlet. Paste polish might be the exception: there was a perception that Kiwi and possibly Cherry Blossom had a superior performance, and these well-established brands were very difficult to replace on the supermarket shelves. A number of substitute paste polish brands were available, if they could achieve distribution. Punch's own policy had been to try to replace 'shoe polish' by 'shoe care', and it had been fairly successful in doing that in the shoe retailers and shoe repairers where most of its business traditionally lay. In grocery outlets there was still a long way to go. The supermarket sector was largely brand-orientated and did not see the necessity for a third brand. It was not the company's policy deliberately to seek own-label business, though if offered a viable opportunity it would be interested.

5.23. Retailers nowadays relied on quick response from the manufacturer and had significantly reduced the stock they carried; the fast turnaround of orders was important. There was little brand loyalty from the consumer and therefore service could play an important part in the retailer's purchasing decision.

5.24. During the mid-1980s demand for shoe care products, in Punch's experience, had been increasing at quite a considerable rate, but over the last two or three years there had been a marked decline, partly due to the recession. Footwear sales had fallen by about 10 per cent in volume, and Punch depended very much on sales through shoe shops. Changing lifestyle was having a detrimental effect on shoe care as a whole.

5.25. The market had been generally static in value terms over the past three years, with price increases in line with inflation being offset by similar percentage volume declines. Economies of scale could be significant as all components, both chemical and packaging, would show cost benefits as volumes increased. Production of a range of products would have marketing benefits (as opposed to production cost benefits).

Prices

5.26. Wholesale and retail pricing terms were strictly related to order volumes. For Punch's largest multiple customers special prices had been negotiated, and with a few customers there were long-term agreements to provide a retrospective discount based on the achievement of an annual turnover target.

5.27. Recommended retail prices established a level which to some degree enabled the manufacturer, distributor and retailer to secure a reasonable gross margin. Shoe retailers and repairers usually sold at or near the recommended prices. Grocery multiples tended to discount prices, especially for paste polish.

5.28. Punch had no exclusive supply contracts, but some retailers opted to buy exclusively because of preferential terms, ease of ordering from a single source, or promotional or merchandising support. Punch relied on innovative product ideas, product efficacy, good presentation and a high level of service. It thought that Reckitt & Colman had relied (as did Sara Lee in respect of the brands it had acquired) more on providing very high margins to the retailer in exchange for a sole supply contract.

5.29. Price competition in terms of retailers' margins had been fierce over the years and the level of discounting became particularly aggressive during the period of Reckitt & Colman's specialist shoe care division (1990/91). Reckitt & Colman had entered into contractual arrangements with retailers offering unusually high margins for sole supply, which had depressed manufacturers' margins to the benefit of retailers and wholesalers.

5.30. Trade advertising, point of sale, promotions, trade functions and sponsorships helped to give the supplier a high and active profile in the trade. The advertising spend was largely weighted towards securing distribution, and its effect on the creation of brand awareness was limited. The purchasing rate was very low-an average of one single piece of applied product per capita, per annum.

Effects of the merger

5.31. Since Sara Lee now controlled many significant brands, consumer pricing levels might largely be determined by it in future. Its pricing and promotional policies might determine the future for other brands in the market-place. Much would also depend on whether Sara Lee sourced product in future from group-owned factories in Europe and world-wide. Sara Lee had publicly stated its ambition to offer a complete shoe care range to include shoe laces, shoe trees and insoles. If Sara Lee were to realise this ambition with externally sourced product, then many small and established manufacturers in the United Kingdom which specialised in these areas might be affected.

5.32. There were difficulties facing new entrants. A typical packaging line would cost £150,000 to £200,000. However, existing participants supplied all known needs adequately; most suppliers had a very strong allegiance from their customers for various reasons, and the securing of shelf space by new entrants had proved inordinately difficult; and the costs of sales representation, warehousing, despatch, delivery and merchandising were such as to require a level of business of at least £3 million a year, unless costs could be spread by distribution of compatible products. Entry from producers in related areas was difficult due to the necessity to have a complete range and the problem of retailer credibility. However, this type of new entrant had the best possibility as they had the trade connection and support services in place.

5.33. Asked about its possible responses to hypothetical price changes by Sara Lee, Punch said that it had every intention of retaining its existing distribution and of increasing it if at all possible. There had so far been no sign of increased opportunities arising from a wish by customers to dual-source following the merger. Nor was there evidence of Sara Lee's withdrawing the high margins that some retailers were currently enjoying. If Sara Lee inflated prices by an unreasonable amount, Punch would hope to improve its distribution in grocery outlets.

5.34. Asked about the effect of the merger on the public interest, and about hypothetical remedies, Punch said that for one manufacturer to have the two leading brands of paste polish could be damaging both to consumers and to competitors. If divestment were recommended, Punch would be interested in either the Cherry Blossom or Meltonian brand. The former would enable the company to have a strongly branded paste polish for grocery distribution. Manufacture of the Meltonian range could be accommodated since it was very much in keeping with the company's present offering in the specialised sector and further economies of scale might be possible. There were European manufacturers which might also be interested.

Carr & Day & Martin Ltd

5.35. CDM is an old-established company (dating from 1770) manufacturing chiefly equestrian products such as leather and horse care chemicals, household polishes and shoe care products. Since 1990 the company has not traded on its own account but has operated as an agent for Holt Lloyd International Ltd, whose ultimate holding company is The Morgan Crucible Company plc.

The market

5.36. CDM offered set rates of discount to wholesalers, and to retailers who bought direct, although the rates varied from product to product. A few major wholesalers were offered a special rate based on aggregated sales. It had no exclusive dealing arrangements.

5.37. Retailers often followed the recommended retail price. Shoe care products were infrequently purchased and in CDM's opinion were less price-sensitive than items purchased daily or weekly. Brand names were probably the most significant factor in maintaining customers, who associated a brand with a certain level of quality, though in fact differences in quality between manufacturers varied from product to product. Advertising was essential to hold market share or build a major position within the market.

5.38. Own-label was not widely popular in shoe care, one of the limiting factors being minimum production runs for printed tins. CDM produced own-label products as a significant proportion of its business. It was also cultivating independent specialised outlets which, however, tended to be relatively expensive to serve.

Economies of scale

5.39. There were in CDM's view economies of scale in manufacture and distribution. Raw materials were significantly cheaper when purchased in bulk. It was possible to produce a range of products on one line, keeping machines fully utilised, increasing the speed of filling and reducing labour and overhead costs per unit produced. Producing a range of products on similar lines increased turnover without further capital investment. Having an effective distribution network was extremely important, especially when launching a new product 'on the back of' current orders. Here too economies of scale made possible better service and lower costs.

Effects of the merger

5.40. If Sara Lee became the major supplier in the United Kingdom market, it might be in a position to influence consumer prices. Smaller manufacturers could not compete across a full range of products with larger manufacturers which had more resources to ensure market penetration of their products. On the other hand, there might be some potential for growth if wholesalers and retailers wished to maintain a policy of stocking two brands from different sources. CDM was concerned at the possibility of predatory pricing by Sara Lee, though even if faced by such tactics it would strive to stay in the market.

5.41. With regard to new entry, CDM believed it would cost (excluding land and buildings) anything from about £350,000 to establish a low-volume three-paste-line operation and possibly up to £3 million to produce larger volumes and a more extensive product range. It was likely to take some time for a new manufacturer to ensure a consistent and acceptable level of quality and additional costs would arise in establishing a brand. Foreign manufacturers would face an equally big marketing entry cost, as well as more transport costs.

5.42. Asked for its views on hypothetical remedies in the event of a finding that the merger was against the public interest, CDM said that it thought there were prospective purchasers for brands if any were required to be divested.

Dunkelman & Son Ltd

5.43. Dunkelman, maker of Dasco products, did not wish to make any representation to the MMC regarding the merger, pointing out that its business was mainly in hardware non-chemical products. Its turnover in applied shoe care products (which it did not manufacture but bought in) amounted to less than 20 per cent of sales.

5.44. Nearly all these products are imported, though a small amount is obtained from other sources in the United Kingdom.

The Mars Oil Company Ltd

5.45. Mars Oil manufactures a range of products to care for leather used in all kinds of sports and other activities. 15 to 20 per cent of the business is devoted to shoe care. Mars Oil concentrates on niche markets both in the United Kingdom and overseas where leather is required to be shined and waterproofed.

5.46. Mars Oil told us that it did not supply the supermarkets although it did sell products which were used as own-label products, a sector which is increasingly taking a larger market share. Although it foresaw its own market share rising, Mars Oil believed the overall shoe care market was static or in slight decline.

5.47. Mars Oil expressed surprise that no continental manufacturers had made a concerted effort to sell in the United Kingdom as there were no inherent problems in manufacturing or transport. Possibly these potential competitors recognised that this market was characterised by a high degree of brand perception and loyalty. Purchases were not made on impulse but were more related to convenience. A consumer would be reminded that he or she needed polish by the sight of a familiar brand, usually Kiwi or Cherry Blossom.

Effects of the merger

5.48. Following the merger Mars Oil was apprehensive (although no more) that in market areas where they overlapped Sara Lee would be able to undercut on prices with a view to eliminating competition. Sara Lee would then be free to raise prices. Currently Mars Oil did not consider that there would be any marked effect on trade margins or prices to the consumer. Sara Lee in introducing a traditional leather care range under the Properts brand was, however, focusing on several of Mars Oil's key markets.

5.49. Mars Oil considered that consumer choice would be reduced if Sara Lee used common ingredients and manufacturing processes for Kiwi and Cherry Blossom, and was also concerned that Sara Lee, now the largest single customer of CMB Packaging (the sole supplier of wing opening tins), could exert unfair pressure in relation to the supply and price of tins to other customers.

5.50. While it was possible for a manufacturer of furniture or car polish to enter this market-there were no technical obstacles-the small size of the market and low profit potential would be effective barriers to entry. On the hypothesis that the merger might be found to be against the public interest Mars Oil was sure that if the Reckitt & Colman brands were ordered to be divested a buyer would be forthcoming.

Dougmar Ltd

5.51. Dougmar, a company specialising in aerosols, but also producing a gel and a liquid silicone wax, had no feelings either way about the merger. It stressed that all its own products were manufactured in the United Kingdom, which was not the case with many of the other suppliers.

S C Johnson & Co Ltd

5.52. S C Johnson, a leading manufacturer of wax polishes in the United Kingdom and the United States, expressed no views, pointing out that although it had an applied shoe care business (Brillo One-Step sponges), this was on a small scale.

Werner & Mertz

5.53. Werner & Mertz, the market leader in applied shoe care products in Germany, said that it supplied other products to the United Kingdom market, but not shoe care. The effects of the merger were difficult for it to judge, but it appeared to mean that the top two brands were being marketed by the same company.

Another European producer

5.54. We asked another European producer of shoe polishes to give its opinion. It produces a wide range of shoe care products which are exported to several countries including the United Kingdom.

5.55. The company told us that prior to the merger there was vigorous price competition in the United Kingdom but it had been able to secure a small share of the market through producing good-quality products and own-label supplies.

5.56. Following the merger the company believed that Sara Lee could decrease prices in the short term because of the scale economies it would achieve. When smaller competitors had been eliminated, prices would be raised to recoup the expenses and there would be a reduction in choice to customers. There was also concern that if production of all Sara Lee's brands were moved to France an important source of United Kingdom production would be lost.

5.57. The company forecast that Sara Lee's monopoly would become apparent throughout Europe. Again it could foresee prices being lowered, competition driven out, prices then being raised and production being moved to low-cost countries. When Sara Lee's estimated share of the market in the United States and Canada (about 90 per cent in both cases) was taken into account the potential monopoly situation arising could almost be seen as a global one.

Customers-self-selection

Asda Group plc

5.58. Asda did not consider that this merger would have a major impact on the shoe care market, although Sara Lee now had 86 per cent of its business and could therefore attempt to dictate prices. To date Sara Lee had shown no evidence of being monopolistic and should it become less flexible, Asda would introduce a new brand or consider developing its own label (which had not been done previously because of the relatively small size of the market and its potential). An increase in price of over 6 per cent might cause Asda to look for a competing brand; an increase of double that figure might cause it to reconsider the case for introducing its own label. Another possibility would be simply to reduce the range stocked and space given to these products in Asda stores.

5.59. The market still favoured traditional tinned pastes, although the trend was towards products that took the work and mess out of shoe polishing, using self-polishing silicone 'shine' sponges and liquid polish in foam-padded dispensing tubes. These products were not particularly price-sensitive and were mainly led by fashion. However, customers did have some brand loyalty for Kiwi and Cherry Blossom traditional paste polishes.

Booker Cash & Carry Ltd

5.60. Booker, a division of Booker Belmont Wholesale Ltd, felt that the impact of the merger would result in the possibility of higher cost prices leading to higher consumer prices. Whilst there were other suppliers of applied shoe care products, the dominance of Cherry Blossom and Kiwi in terms of market share was so pronounced that the merger would in the long run have a detrimental effect on prices and level of choice.

5.61. Booker never had, nor intended to have, its own label: sales did not warrant it. The trends in consumer demand had tended towards products giving easier and quicker results, eg instant shoe shine applications, liquid polishes etc. However, these had not proved successful with independent retailers who continued with the traditional paste polishes.

5.62. The main factor influencing consumer demand was availability of product. Booker currently offered Cherry Blossom (far and away the brand leader in the independent sector) and Kiwi. It was doubtful if consumers perceived quality differences between brands and products, and most shoe care products purchased in independents were not price-sensitive.

5.63. Before the merger the market had been extremely competitive. Booker stocked both brands in order to play one off against the other in order to improve prices, promotional monies and overriding discounts.

Budgens plc

5.64. Budgens plc (Budgens) believed the merger had squeezed its ability to provide an alternative product. In turn this could have an impact on cost prices and margins in the medium to long term. Prior to the merger shoe care products appeared to have been regarded as insignificant by Sara Lee and Reckitt & Colman and there had been little evidence of 'strategic aggressiveness'.

5.65. Budgens did not sell own-label products and its level of turnover would preclude it from doing so. Minimum production runs with the subsequent downtimes and large stockholdings would make it financially impracticable. Budgens did not believe that consumers were aware of a particular brand or price. Shoe care products were purchased by consumers on a 'need' basis. If the price increased by, say, 10 per cent, an alternative source of supply would be sought, possibly in continental Europe.

5.66. Budgens believed the merger would force other retailers to look to own-label development and cited as an example Proctor & Gamble and Lever Brothers in the detergents market. Sara Lee now had total command of the branded market and would be likely to endeavour to influence price and profit margins.

Co-operative Retail Services Ltd

5.67. Co-operative Retail Services Ltd (CRS) was against the merger. Shoe care products were relatively insensitive to prices as purchases depended on a need to buy. The consumer was not apparently influenced by brand name and would purchase what brand was available as quality standards were very uniform. Similarly consumer demand for different colours changed by region and as fashions changed. Moreover demand was increasingly for products with easier application.

5.68. Competition before the merger was very strong and healthy as there were two major companies in the retail grocery market. Quality and service standards were extremely high. CRS had a strong negotiating position but this had been lost after the merger. As Sara Lee now had very little competition CRS expected the consumer might experience higher prices, and reduced quality and choice.

5.69. If price increases were substantially above the level of inflation, alternative suppliers would be sought. The relatively small size of the total market would make the economics of own-label production questionable.

Costcutter Supermarkets Ltd

5.70. Costcutter Supermarkets Ltd, a northern retailer and member of Nisa Supergroup, was in agreement with the merger and thought that it was good for the retail industry as a whole.

Gateway Foodmarkets Ltd

5.71. In Gateway's view, Sara Lee now had a monopoly. Gateway's negotiating stance was therefore limited in terms of sourcing shoe care elsewhere. In the long term this could result in cost increases and a limited choice of products.

5.72. The level of sales achieved did not warrant the development of an own-label. Sara Lee had been chosen as Gateway's main supplier because it offered a quality product, an excellent level of service and good brand support.

The John Lewis Partnership

5.73. The John Lewis Partnership (John Lewis), on behalf of its department stores and the supermarket chain Waitrose, did not wish to make any representations regarding the merger. However, it did tell us that by far the majority of its shoe care products came from Sara Lee with a small amount from Johnson's Wax. It also said that if it appeared that a branded item was becoming overpriced it would look at the possibility of establishing an own-label polish even if this meant sourcing from overseas.

Wm Morrison Supermarkets plc

5.74. Wm Morrison Supermarkets plc bought shoe care products from Sara Lee (formerly from Reckitt & Colman) and also from CDM, sales of these products to its customers in 1991 amounting to £1.2 million. Its experience was that consumers were influenced by price and were not 'brand-sensitive'. The merger could only have a detrimental effect on prices and choice in the long term. Previously there had been healthy competition.

The Navy, Army and Air Force Institutes

5.75. The Navy, Army and Air Force Institutes (NAAFI) buys mainly Kiwi, but also some Meltonian, to a total value (at cost) of over £230,000 a year, putting it among the larger customers for these products. It commented only that the merger had made virtually no difference except that it now dealt with one account manager and that Sara Lee appeared to be more efficient. Supplies are also purchased from Kiwi (France) for use by British forces in Germany.

J Sainsbury plc

5.76. Sainsbury believed that consumer demand was influenced by the quality of the product, ease of use and price. The trend was away from old-fashioned shoe polish in tins to easy applicator creams and polishes. Surface sponge products had increased the market but since they had not performed as well as creams or polishes, Sainsbury did not see their long-term influence as likely to be great. Consumers' perception of differences between brands was low.

5.77. Prior to the merger Sainsbury had perceived very little price competition between suppliers. The main difference was in terms of brand and consumer awareness. Before the merger the major brands had been represented in the market for some time. The choice of suppliers and products was dictated by the rate of sale of individual existing products and the innovative appeal of new ones.

5.78. In Sainsbury's view the combination of the two businesses would, within Sainsbury, leave its own label, introduced in 1985, as the only effective competitor. Consumer choice could be reduced if one or more brands were discontinued, although in such a small market Sainsbury believed its own label was a major competitor-it covered pastes, liquids, creams and sponges and already accounted for over 50 per cent of sales in volume terms-and could be developed further. However, there had been no evidence to suggest that Sara Lee had exploited its dominance in the market. Nor had Sainsbury any reason to suppose that Sara Lee would act in an anti-competitive manner.

5.79. If prices of the leading brands increased as a result of underlying changes in general market costs, it might reasonably be expected that own-label prices would also be affected, but there was nothing automatic about this process.

Superdrug Stores PLC

5.80. Superdrug-like Woolworths a part of the Kingfisher group-made no representations concerning the merger, but reported that Sara Lee was its sole supplier, sales being divided in the approximate proportions 30 per cent own-label to 70 per cent branded. If prices were increased, Superdrug would try to keep to the nearest price point within the retail price inflation. Its own-label price was related to the main branded price and to the own-label prices of other retailers, so an increase in branded prices would lead in the long run to an increase in own-label prices. Keeping prices down would not, in Superdrug's view, lead to increased sales and market share since it was a convenience outlet for this product rather than a destination or comparison outlet. It had no problems in managing its own-label supply.

Tesco PLC

5.81. Tesco said that before the merger there were at least three suppliers able to offer a comprehensive range and competing strongly for business. The removal of one of them had a significant effect on Tesco's ability to seek varying sources of supply. Bearing in mind that the consumer was relatively unaware of price, because purchases were so infrequent, it would seem to present a monopolistic supplier with the opportunity greatly to inflate market prices. Inevitably both retailer and consumer choice would be inhibited.

5.82. At a meeting with the MMC, Tesco said that its annual turnover in shoe care in its broadest definition (ie including accessories) was £3.5 million, of which £2 million represented paste polish and other types of shoe polish treatments. The return per linear foot was about 60 per cent of the company's normal expectation for groceries.

5.83. Tesco had not launched its own label because of the breadth of range involved and the relatively low rate of sale of all but a couple of the products. The product would have to be specified and quality controlled.

5.84. In the minds of consumers, there were only two brands in the market-place, Cherry Blossom and Kiwi. People looking for shoe care products sought the reassurance of those long-established names. Most people would be content to buy one or the other, without particularly minding which. Customers were relatively insensitive to price.

5.85. If Sara Lee increased prices to an unjustifiable extent, Tesco thought that the only recourse would be to look for an own-label supplier. That would be inconvenient but there might be no alternative. Asked whether it was not open to it to encourage competitors, Tesco reiterated that the key point was the strength of the two brands. It would damage business to a very great extent if Kiwi or Cherry Blossom, or both, were removed from the shelves.

5.86. Asked whether its large-scale buying and negotiating skill did not constitute a strong countervailing power to that of any supplier, Tesco said that in its experience where a supplier had a dominant market position that position could be exploited against a company like Tesco. A 'take-it-or-leave-it' attitude could be adopted, as occurred to some extent in the detergents market because of the strength of the brands-and in that market the leading brands were separately owned.

5.87. With regard to new entry, Tesco thought that the cost of installing a production line and trying to establish a competitive brand within the market-place would be a barrier, except perhaps to the own-label route. The Kiwi and Cherry Blossom brands had the consumer franchise, and however many other brands were stocked it was unlikely that they would sell as well. These brand names also had a 'halo' effect extending beyond paste polish to other products.

5.88. Asked about hypothetical remedies, Tesco thought that there would be a purchaser for Cherry Blossom if it were to be divested. The key point for competition was the separation of the two brands.

Another large supermarket chain

5.89. One large supermarket chain had previously communicated to the Office of Fair Trading its view that as a result of the acquisition Sara Lee would command over 50 per cent of its purchases. Competition would thus be limited. There would be a reduction in the options available, and hence in negotiating opportunities.

5.90. This company had discontinued its own label, having found that it did not compete effectively against branded products, despite a price differential of 20 per cent. It would not consider reintroducing an own label as the levels of sales and profits in a highly branded market would make the decision uneconomic. Given the small size of the market and the dominance of the brand, it believed the scope for entry by alternative suppliers was limited. If prices went up, there would be little alternative to passing the full increase on to the customer.

Woolworths plc

5.91. Woolworths, with probably the largest sales in the self-selection sector outside the grocery supermarkets, buys rather more than half its applied shoe care products from Sara Lee and rather less than half from Punch. It had own-label shoe repair products and laces, but all applied shoe care products were branded. It did not intend to introduce an own-label range, but if it changed this policy, possible problems that had been raised (specification and quality control, minimum production runs for tins, stockholding) would have to be addressed, and so would packaging design. None of this would be a sufficient deterrent if Woolworths felt that own-label was the way forward.

5.92. Woolworths subsequently commented that the Kiwi and Cherry Blossom brands constituted the large majority of the branded shoe polish market in the United Kingdom. Historically healthy competition had existed between these two brands which, indeed, until recently was extremely advantageous to both retailers and consumers in maintaining competitive market prices. Sara Lee was currently proposing a retail price increase of at least double the current rate of retail price inflation. This was a matter of concern, and in Woolworths' view the merger should be discouraged in the interests of the consumer.

Customers-wholesalers

S Adler & Sons Ltd

5.93. S Adler & Sons Ltd, a shoe repair wholesaler, was in favour of the merger.

A Algeo Ltd

5.94. A Algeo Ltd (Algeo), another wholesaler, did not doubt that the merger had reduced the number of manufacturers from which it could purchase. Algeo also told us that there had been a reduction in its trading margins and a price increase to the retail customers which would squeeze distribution profits. Sara Lee was a powerful controlling force, had adamantly refused to increase the trade commission, and was offering cheaper prices than through the market in which Algeo operated.

Charles Birch Ltd

5.95. Charles Birch Ltd (Charles Birch) is the United Kingdom's largest wholesaler and distributor of shoe care products to the repair trades. It told us that before the merger there had been little active competition between Sara Lee and Reckitt & Colman in a market that had been contracting slightly over the last few years. Reckitt & Colman had lost market share although this had been retrieved following the creation of a shoe care division. For its part Sara Lee had not competed in the shoe retail and repair market

to the same extent as it had in the supermarket trade. The merger was in part intended to rectify its position in this market sector where it was poorly represented.

5.96. Immediately following the merger Charles Birch was concerned that most of the leading shoe care brands supplied in the United Kingdom were controlled by one company. Of particular concern was the question of future supply, price structure and maintenance of the brands. Initially there had been teething troubles in moving production lines, but since the merger supplies had continued to come through reasonably and whilst prices had been increased for some products they had been reduced for others. Now that it was apparent that production would remain at Honley Charles Birch no longer expected the merger to impact adversely upon its business. The company suspected that Sara Lee might rationalise certain brands but believed that this might be beneficial as Sara Lee would be in a stronger position to support the remaining brands.

5.97. Despite its large market share Sara Lee did not have the strength to dictate or dominate the British market. CDM had become a more aggressive competitor and Punch was a very independent competitive company. Nor was there a shortage of potential overseas suppliers to which Charles Birch could turn. The disadvantage of not having a well-known brand name would not be insurmountable.

5.98. Charles Birch would not see any prospect of a domestic producer of furniture or car polish entering the market. The market was static and there had been very few new United Kingdom entrants: possibly they were unwilling to start from scratch without a recognisable and adequate brand name.

5.99. Responding to the hypothesis that the merger might be deemed to be against the public interest and that the acquired brands were to be divested, Charles Birch wondered whether there was a company which could effectively absorb them. Acquisition by Punch would probably create another reference situation; other possible candidates were too small and limited; and S C Johnson would probably consider the shoe care market to be too small to be of interest.

Edward Healy & Sons

5.100. Edward Healy & Sons, a wholesale supplier of shoe repair materials and shoe care products, said that the merger had caused concern because competition in the market had diminished. Its main source of supply, other than Sara Lee, was Punch, with very little being available from alternative sources.

Kane & Company (Belfast) Ltd

5.101. Kane & Company (Belfast) Ltd (Kane), a wholesaler to the shoe trade, was in favour of the merger. It told us that it had enjoyed a good working relationship with Reckitt & Colman which it expected would continue with Sara Lee. Following the merger Kane's business had continued exactly as it had before, without any real advantages or disadvantages.

5.102. If Reckitt & Colman had been acquired by a company already supplying products in its market, such as Punch or a similar company, this would have been detrimental. But as Sara Lee had not supplied this market, circumstances had not changed; there was still the same number of fiercely competing suppliers.

Marshall Pocock Ltd

5.103. Marshall Pocock Ltd, a shoe repair wholesaler, thought that, as a major customer of both companies, its choice of shoe care products had not been seriously decreased, and it did not object to the merger.

Customers-shoe retailers

British Shoe Corporation

5.104. BSC, the largest shoe retailer in the country, buys most of its requirements, both own-label and branded, from Punch, although some items are purchased, on a relatively small scale, from other suppliers, including Meltonian and Properts, both formerly from Reckitt & Colman and now from Sara Lee, for use in BSC's Manfield and Roland Cartier shops respectively.

5.105. With nearly 20 per cent of the footwear market and many high street names (Dolcis, Saxone, Lilley & Skinner, Freeman Hardy Willis, Cable, Curtess, and others) BSC is the largest purchaser of shoe polish products in the country, purchases in 1991 amounting to £2.4 million.

5.106. BSC had no concerns about the effects the merger might have in the shoe shop market, but did not know what the effect might be in supermarkets and shoe repair shops where the majority of Sara Lee products were sold.

5.107. Dolcis and Cable shops each had their own label, supplied respectively by Punch and by Dunkelman, and one was envisaged for the Hush Puppy shops. Many customers were, however, willing to pay more for a brand they recognised and whose quality they trusted. In terms of the ways in which they were managed within BSC, the line between 'brands' and own-labels was a fine one. Current trading policy was to stock branded products for the most part, though this could fluctuate with market conditions.

5.108. One of the problems with own-label was that one could become over-committed to a particular colour shade, for example, which ceased to sell because of a change in fashion. More generally there was the need to forecast sales when they might be affected by weather changes or other unpredictable factors. With standard branded lines, it was usually possible to order 'off the shelf' to meet current requirements.

5.109. Customers' expectations differed as between supermarkets, shoe retailers and shoe repairers, and BSC did not regard these three sectors as being in competition with one another.

5.110. BSC was particularly concerned with safety and quality control standards and visited suppliers' factories to ensure that these standards were met, as well as conducting its own tests.

5.111. BSC had not seriously considered sourcing overseas for the bulk of its supplies, and had some apprehensions about security of supply if it were to do so. In one specialised area in which shoe creams came from abroad, there had been a 16-week gap in supplies which had caused considerable inconvenience.

Clarks Shoes

5.112. Clarks, a leading shoe manufacturer, and the second largest shoe retailer after BSC, did not foresee any problems as a result of the merger. Most of its shoe care products were own-label and it had not been a customer of either Sara Lee or Reckitt & Colman. There was a wide choice of alternative suppliers, either well-known brands such as Punch or Dasco or smaller companies which would produce to a customer's own specifications.

A Jones & Sons plc

5.113. A Jones & Sons plc (Jones) felt that the merger did raise possible long-term problems in the limiting of supply of shoe care products.

5.114. Jones did not trade with either of the companies concerned although it had in the past. It had a sole supplier arrangement with another company but it would be concerned if alternative choice was limited by the merger.

5.115. The shoe care market was relatively limited and the merger would appear to have produced one giant supplier in relative terms, leaving only two or three relatively small companies to compete.

Another shoe retailer

5.116. Another large shoe retailer told us that it had a sole supply agreement with Sara Lee for the Meltonian brand. The agreement had been negotiated with Reckitt & Colman during the latter part of 1989 and had been put into practice in March 1990. It offered several advantages: Meltonian provided a better service than its competitors; the product range was fully comprehensive and matched the company's target market; there were improved discounts and marketing support; it was easier to promote a single brand; and lead times were much reduced.

5.117. The retailer did not sell any own-label shoe care products. Its market research had indicated that branded products were perceived by customers to have a much higher value.

5.118. It did not consider that it was in a position to be able to forecast the United Kingdom shoe care market, because of the lack of available data. Cost prices were negotiated on an annual basis with Sara Lee and retail prices were based on what was acceptable in today's competitive environment. Product demand in a store was totally based on seasonality and the product type offered.

5.119. Shoe care was a luxury rather than a necessity purchase. If pricing levels were out of kilter with consumers' perceptions of value and benefit, sales would be reduced accordingly. It was in the suppliers' own interest to ensure that prices remained at an acceptable level. The company believed a sole supply agreement was the most beneficial arrangement for it. There were only two suppliers which had the breadth of range to satisfy its needs-Meltonian and Punch; thus from its point of view the same level of competition continued to exist after the merger.

Russell & Bromley Ltd

5.120. Russell & Bromley Ltd (Russell & Bromley) told us that there had been healthy competition before the merger. With the amount of competition still available Russell & Bromley did not believe that the merger would be detrimental to customers.

5.121. Wherever possible it was Russell & Bromley's policy to sell own-label shoe care products and the majority of products stocked were own-label although currently none of these were supplied by Sara Lee.

5.122. Russell & Bromley considered that price had an influence on consumer demand especially during a recession. Consumers' perception of quality differences was influenced by advertising power and the reputation of the Russell & Bromley name on its own-label products. Consumers did not appear to have any definite perceptions of difference between particular brands.

Stead & Simpson Ltd

5.123. Stead & Simpson Ltd (Stead & Simpson) said that for many years it had had a number of suppliers, mainly larger companies, for shoe care products. In 1991, however, it became clear that there were financial benefits to be had from a solus supply agreement. Stead & Simpson had invited all known suppliers to tender for its business, but only three companies (Reckitt & Colman, Sara Lee and Punch) had been in a position to offer a sufficiently comprehensive range of products.

5.124. After presentations and negotiations Stead & Simpson had eventually formed an agreement to take Meltonian products from Reckitt & Colman. Shortly afterwards, Reckitt & Colman's Meltonian brand was taken over by Sara Lee. Sara Lee had honoured the agreement and to date Stead & Simpson had experienced no major problems in the relationship. However, Stead & Simpson was concerned that it was left with only one other major supplier, Punch, if for any reason Stead & Simpson wished to make a change, either for product or financial purposes.

Stylo PLC

5.125. Stylo PLC, of which the retailer Stylo Barratt Shoes Ltd is a subsidiary, was not opposed to the merger.

Customers-shoe repairers

Society of Master Shoe Repairers Ltd

5.126. The Society of Master Shoe Repairers Ltd (the Society), the main trade association of independent shoe repairers, was concerned about the merger and had received complaints from members. The concerns had also been expressed in the Society's monthly journal *Shoe Service*.

5.127. Although there were several other companies currently producing shoe care products, eg CDM, Dasco, Woly and Punch, only one of these, Punch, was able to offer nation-wide availability of products to shoe repairers at a viable price in acceptable quantities.

5.128. The Reckitt & Colman brands were well recognised by the consumer who would not accept a substitute from a different manufacturer. The links that the Sara Lee group already had with household products led the Society to fear that Sara Lee would concentrate its sales on supermarkets and general stores with shoe repair outlets having to take a back seat on choice, service and price. Prior to the merger concerns had already been expressed that certain shoe care products could be purchased more cheaply at the local supermarket than from the shoe repair wholesaler.

5.129. Repairers had already reported difficulties in obtaining supplies of Reckitt & Colman brands from wholesalers despite assurances from Sara Lee that this would not occur during the take-over period. Concerns had also been expressed that Sara Lee would reduce its product range in the long term. Many of the Sara Lee products would be similar but marketed under different brand names, some of which might disappear if it proved not to be viable to continue them.

5.130. The Society believed repairers stocking only one brand of shoe care product lost custom. In addition if the well-known brands, such as Meltonian, were stocked by supermarkets and general stores at low prices, sales of shoe care products could cease to be a viable proposition for shoe repair outlets, particularly the small independent shops which could not compete.

5.131. Consumer choice could be seriously affected; supermarkets and general stores stocked shoe care products as a few amongst many hundreds of lines. Displays were increased and decreased according to seasonal variations and promotions of other (possibly more profitable) lines. The range of products was limited and within this range only a restricted basic choice of colour was offered. In contrast the Society argued that shoe repair outlets specialised in these products and colour choices. Also shoe repair outlets were the ideal place to purchase shoe care products as the customer already had the condition of his shoes in mind and was able to take advantage of specialist advice when making a purchase.

Mister Minit plc

5.132. Mister Minit, a large chain of shoe repairers operating in many parts of the world, told us that in its opinion the merger would not reduce or affect competition in any way as the Reckitt & Colman brands were being continued by Sara Lee. Nor would consumer choice be affected, and in fact Mister Minit favoured the merger as it believed it would result in the stronger promotion and presentation of brand names.

5.133. Mister Minit explained that it had worked closely with Reckitt & Colman over many years and as a result its shoe care range was, with few exceptions, exclusively one of Meltonian products. Meltonian offered a fully comprehensive range which Mister Minit believed consumers would expect to be able to buy from its shoe repair outlets.

Timpson Shoe Repairs Ltd

5.134. Timpson, the United Kingdom's second largest shoe repair chain, considered that competition had been materially affected simply because two of the largest suppliers had become one.

5.135. Before the merger, the market in recent years had been relatively static and with the exception of Punch there had been little new entry or innovation. More recently Reckitt & Colman had worked very hard to obtain Timpson's custom and CDM had become a more active player.

5.136. Timpson suspected that overseas suppliers had considered the cost of entering the United Kingdom market and thought the costs of breaking the stranglehold of Kiwi and Cherry Blossom too great in relation to potential profits. For its part Timpson did not favour imports which it felt did not provide the quality or service given by the United Kingdom or Irish companies.

5.137. Timpson believed that the market exhibited a very high degree of consumer brand awareness and recognition for Kiwi and Cherry Blossom paste polishes. Together with a comparative consumer indifference or insensitivity to price this meant that Timpson would be unlikely to contemplate stocking any other brand.

5.138. Timpson believed that the merger had affected competition in that there were now only two quality suppliers, Sara Lee and Punch, in the market which would reduce a customer's negotiating power. The smaller United Kingdom suppliers could be economically squeezed which could lead to their demise or acquisition by Sara Lee or Punch. Thus Timpson's choice of suppliers would be reduced even further with the likelihood of higher prices being charged which would have to be passed on to the consumer.

5.139. Further concerns were the possibility of a cartel and the rationalisation of the brands. Whilst a cartel involving, say, Sara Lee and Punch seemed unlikely, Timpson was worried about the possible behaviour of successor managements. Rationalising brands would reduce choice and although Timpson did not duplicate many lines, such a course of action would mean that customers might not be offered the best product available in each category.

5.140. With its dominance of the paste polish sector Sara Lee would be able to manipulate supply and dictate those products which would be made available for supermarkets or the specialist trade.

5.141. In the event that the merger was found to be against the public interest, Timpson considered that Sara Lee would have to divest a paste polish brand. Most likely there would be potential purchasers.

Other parties

Earnshaw Ltd

5.142. Earnshaw Ltd (Earnshaw), a specialist in shoe leather colour finishes and surface coatings, was unreservedly in favour of the merger. It felt that the reference to the MMC would only cause confusion and hinder the industrial rationalisation which lay behind the merger and that it was not in the consumer's long-term interests.

5.143. Earnshaw understood that the combined share of the merged shoe care business was nowhere near the level at which the freedom of consumer choice was endangered. One only had to look in all the major retail outlets and read the advertisements in many magazines to realise that there were several other manufacturers whose shoe care products were freely available.

Shoe and Leather News

5.144. *Shoe and Leather News* (SLN) is a weekly magazine for the shoe trade, including retailers, manufacturers and repairers. Its editor told us that the shoe care market was characterised by a relative insensitivity to price, a fair degree of product substitutability and a high level of brand loyalty and recognition amongst consumers and the trade. Sara Lee had been prepared to pay a great deal of money for the Reckitt & Colman brands.

5.145. SLN did not believe that the merger meant that Sara Lee had an unhealthy monopoly, especially as there were strong competitors such as Dasco and Punch, both thriving companies, plus some smaller players like CDM and the potential competition from imports. Similarly SLN did not believe that rationalising brands would be in Sara Lee's interests: if that was the intention, there would have been little point in Sara Lee buying the brands initially. Whilst accepting that Sara Lee was in a powerful market position SLN thought that there was enough actual and potential competition to prevent its being able to manipulate the market.

Stephen Lucking Ltd

5.146. Stephen Lucking Ltd (Lucking), a manufacturer and supplier of shoe care accessories, was against the merger and believed that Sara Lee might be abusing its monopoly to control the whole United Kingdom shoe care market.

5.147. There was evidence of Sara Lee's monopoly power in the recognised channels of distribution. In the leather and grindery trade, Lucking's main interest, Sara Lee's only competitor was CDM, not at present very effective. The exclusive Meltonian deals struck by Reckitt & Colman with Mister Minit and others were being continued and Lucking's offers to tender and requests to meet representatives of these companies had been refused. Throughout this sector Sara Lee was offering customers exclusive deals on comprehensive shoe care ranges. In the multiple shoe repairer and shoe shop areas Sara Lee again offered full range packages of polish and accessories, thus effectively barring Lucking (which distributed only CDM's polish) from competing. On the retail side (grocery and hardware shops etc) Lucking thought that only CDM competed, mainly through own-label.

5.148. Lucking explained that the leather and grindery trade was in recession and had been contracting for several years. Sara Lee, which Lucking suspected offered discounts on polish for insoles sold and vice versa, was cutting off Lucking from its only growth areas, the multiple shoe repairers and retailers.

Unishoe Adhesives & Accessories Ltd

5.149. Unishoe Adhesives & Accessories Ltd (Unishoe) said that whilst it did not sell products in this market it was concerned at the market share currently enjoyed by the merged company. Unishoe believed this would be a very serious deterrent to it entering into the shoe care product market.

Trade unions

5.150. Representations were received from two trade union branches at the Reckitt & Colman factory at Hull, where applied shoe care products were made until production was transferred to the Sara Lee plant at Honley.

5.151. The senior steward and branch chairperson of the Transport and General Workers' Union and the senior group representative and branch secretary of the Manufacturing, Science and Finance union jointly told us that their unions represented approximately 98 per cent of the local work-force and that the sale had resulted in the loss of some 109 jobs in an area where the latest male unemployment figure stood at 13.4 per cent. Sara Lee now owned almost all the commonly sold branded shoe care lines and had 57 per cent by value of the market.

5.152. As representatives of the work-force they considered that the sale had had an adverse effect on local employment and as consumers they were unhappy at the concentration of the branded market in the hands of one producer.