3 The UK market for writing instruments

Introduction

3.1. This chapter examines the UK market for writing instruments, and in particular the market for refillable products costing £2.50 and over, which we refer to as refillables. It covers the following topics: a description of the range of products concerned (paragraphs 3.2 to 3.9); the size and structure of the market (paragraphs 3.10 to 3.13); production methods (paragraphs 3.14 to 3.20); the demand for writing instruments and the market distinction between disposable and refillable products (paragraphs 3.21 to 3.30); a description of the main suppliers of refillables (paragraphs 3.31 and 3.32); an analysis of market shares in the refillables market (paragraphs 3.33 to 3.53); an analysis of the main sales channels, methods of supplier and retailer competition, and barriers to entry in the retail market (paragraphs 3.54 to 3.85); and a brief review of the market for business purchases of refillables (paragraphs 3.86 to 3.98).

The product

3.2. Writing instruments are hand-held implements, from crayons and markers to roller balls and fountain pens.

3.3. One type of instrument in current use, the pencil, was introduced in the 16th century. The British pencil industry was based on the discovery at about the same time of graphite at Borrowdale in Cumberland. The first mechanical pencils were used in the 1820s. The earliest pens were made from reeds. Quill pens were introduced in the 7th century AD and were used until the 19th century, when steel nibs were developed on a commercial scale. Early fountain pens appeared at the same time as the steel-nibbed pen.

3.4. The essential feature of the fountain pen is that it contains its own reservoir of ink. This is quite an old concept; Samuel Pepys is said to have owned a reservoir pen as early as 1663. The first recorded use of the term `fountain pen' as such was in 1710. The history of pen development has been that of overcoming technical problems in storage and delivery of a smooth flow of ink to the nib. The modern fountain pen is normally dated from the 1880s, when George S Parker and Lewis E Waterman in the USA separately developed more reliable methods of storing ink in a leakproof reservoir and delivering an even flow to the nib without flooding. Since then there has been a long period of gradual, if often only marginal, improvements in the quality of the pens and the inks they use.

3.5. A key feature of the pen had always been the split-end, flexible nib, and this had been developed to a high degree in the fountain pen. Fountain pens' domination of the pen market ended when, in 1944, Lazlo Biro patented the first ball point pen. This had a virtually indestructible point, and used quick-drying ink with a long life in the pen. By 1945 the new pen was being manufactured in Europe. When it was mass-produced and made into a disposable product in 1953 by Baron Bich (and branded Bic) in France, it became a very strong competitor to the fountain pen.

3.6. The next major writing instrument innovation was the roller ball pen, a product midway between the fountain pen and the ball point, with the convenience of the latter but using liquid ink similar to that used in fountain pens. This was introduced by the Japanese company Pentel in 1974, and has subsequently established itself firmly in the market. Parker has had a considerable success with its own roller ball pen, which uses a fountain pen-type feed mechanism to get the ink to the point, rather than the more usual method of gradually draining the contents of an ink-soaked pad. During the last decade or so, there have been other product developments, such as the introduction of fibre-tip pens and erasable ink, and marginal technical improvements in existing products. But none is considered to have had a major impact on the quality writing instruments market.

3.7. Though we understand that there is still considerable product research being carried out into pens, the products are widely considered to be mature, with high and consistent technical quality, even at very low prices. There is a very wide range of competent suppliers. Prices range very much more widely than the technical quality of the product. Indeed, at quite a low price (say, £2) quality starts to be taken for granted in most kinds of pens, with price differences reflecting to a much greater extent the effect of style, finish, packaging, brand cachet and so on. Fountain pens are perhaps an exception to this rule, since product quality is affected by the quality (non-corrosibility, durability, flexibility) of the nib. The best nibs are gold nibs. We were told that for fountain pens it is probably necessary to spend about £50 to obtain a pen with the highest possible technical quality. In any pen range, there will be much greater variety among fountain pens than among other products because of the possibility of having varieties of nib. Though most manufacturers only offer `fine', `medium' and `broad' nibs, some, such as Parker and Waterman, offer a much larger variety.

3.8. Over the last decade there has been a revival of interest in and demand for the fountain pen, following a period when it seemed likely to be replaced by the ball point pen. This is attributed to a number of factors, especially a revival in interest and concern about handwriting, in schools and in the population as a whole, and is also reflected in the increased sale of calligraphy pens. Many cheap disposable fountain pens are supplied to the market as well as the refillable variety. Table 3.1 gives estimates of relative growth in different types of writing instrument, obtained from a recent report by Market Intelligence (Mintel) on the personal stationery market.

TABLE 3.1 **Retail sales of selected writing instruments, UK current prices**

	1988 *£m*	*1990* *£m*	*%* *change*
Ball point pens	61.4	62.4	+2
Roller ball pens	25.6	31.2	+22
Fountain pens	22.8	33.8	+48
Propelling pencils	7.6	10.4	+37
Refills	11.6	13.0	+12

Source: Mintel.

3.9. We were told that the growth in demand for quality writing instruments, and for fountain pens in particular, also reflects personal affluence, and the acceptability of pens as status symbols or style and fashion accessories. Fountain pens may well have gained from nostalgia associated with their style, long history and well-established international brand names. Though the technical quality of pens has improved over the years, some major pen manufacturers tend to stress the continuity of their product styles. Thus Parker's current main up-market Duofold range harks back to 1921, while the Meisterstuck, the best-known product of another supplier, Montblanc, dates from 1924.

Size and structure of market

3.10. There are very few reliable statistics on the writing instruments market. There is only a handful of domestic suppliers, most supplies coming from overseas, from a large number of sources. The products are sold through a variety of channels into three main markets, namely the retail market and businesses buying either for their own use or as gifts or promotions. We have had access to the results of a major study (though with the emphasis on writing instruments priced at £2.50 and over), commissioned by Parker from the market research company Market Measures in 1991. In addition we have used a number of studies of the market by other companies, which are individually acknowledged in the text. However, it must be stressed that no statistics on the market should be regarded as definitive.

3.11. We have seen a number of estimates of the size of the UK market for writing instruments in 1991, expressed at retail prices. These vary from about £225 million to £265 million, some of the variation reflecting differences in market definition. The definition employed by Market Measures (see preceding paragraph) covers all writing instruments other than wooden pencils and crayons (the retail value of which was estimated by Mintel to be £34 million in 1990). Thus it covers disposable as well as refillable writing instruments, markers and technical pens as well as ball points, roller balls, fountain pens and refills. It estimates market size in the year to June 1991 at £226 million, of which £110 million is attributed to refillables priced at £2.50 and over (excluding fibre- and felt-tip pens, and technical instruments).

3.12. It is hard to obtain estimates of the growth of the market for writing instruments. According to a 1991 report by Market Assessment, an independent market research company, the UK market for writing instruments increased in value (current prices) by 42 per cent between 1985 and 1990-ie by about 7 per cent in real terms. Within this growth the market for higher-priced writing instruments is believed to have grown relatively strongly, though receiving a setback in 1990 and 1991.

3.13. Figures 3.1*(a)* and 3.1*(b)* indicate the considerable difference between disposables and refillables in respect of the markets into which they are sold. Whereas almost three-quarters of the total value (at retail prices) of refillable sales are made through the retail market, only one-third of disposables sales are made this way. By contrast, whereas only 4 per cent of refillables are sold for use within businesses, this sector accounts for about half of all disposables sales.

Production methods

3.14. There are a number of standard processes involved in the production of writing instruments. Power presses are used to produce metal components, including caps, barrels, blank nibs, clips and refills. Manufacture of stainless steel and brass components employs a deep drawing process or rotary swageing. Components are smoothed and polished in mills with abrasive fills prior to finishing. Precision moulding tools are required to ensure component quality and consistency, and the making of such tools is a highly-skilled activity.

3.15. Most higher-priced pen ranges involve a considerable variety of finishes-stainless steel, epoxy, matte, lacquer, gold, silver, and many more. Specialist techniques include lacquering, epoxy-coating, electro-plating, sputtering[1] and engraving. The production of nibs for fountain pens is a highly-skilled, labour-intensive operation, involving up to 20 stages, including engraving, plating, cutting and polishing. Refills are incorporated in finished writing instruments and supplied as accessories. Production and packing of refills is a highly automated process.

3.16. With regard to assembly, the scope for automation depends on the quantity of product produced. Disposable products, such as cheap ball pens, often made in very large volumes, are able to utilize very high-speed automatic machinery. For more expensive products, made in relatively low volumes, assembly methods are relatively labour-intensive.

3.17. Marking is an activity mainly associated with the business gifts market, and involves the customizing of writing instruments for business customers-usually printing the purchasing company's logo on to a writing instrument. Single and multi-screen printing techniques are employed, and the work is often carried out by agents or wholesalers rather than the pen supplier.

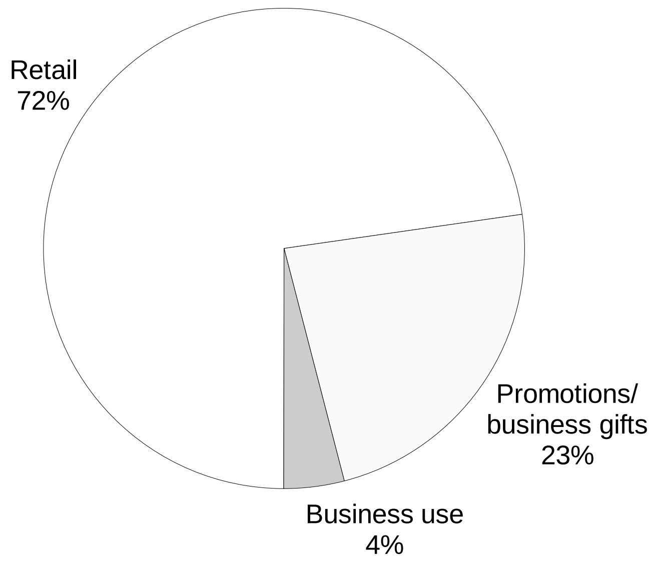
3.18. We understand that at the kind of volumes obtained in the quality writing instruments market there is relatively little scope for the use of dedicated, high-speed, automatic machinery. However, production by Parker of its relatively high-volume Vector and Jotter products is an exception to this rule.

3.19. Pen manufacturing is not a highly-specialized sector. The techniques used are widespread in light engineering. Where a pen supplier uses products which are best made in very large quantities (eg ball point tips), these tend to be bought in from specialist suppliers, elsewhere in Europe or the Far East.

[1]Physical vapour depositions of gold and other materials in a microlaminate format.

FIGURE 3.1*(a)*

Overall sales pattern for refillable (£2.50+) writing instruments in the UK, by value*

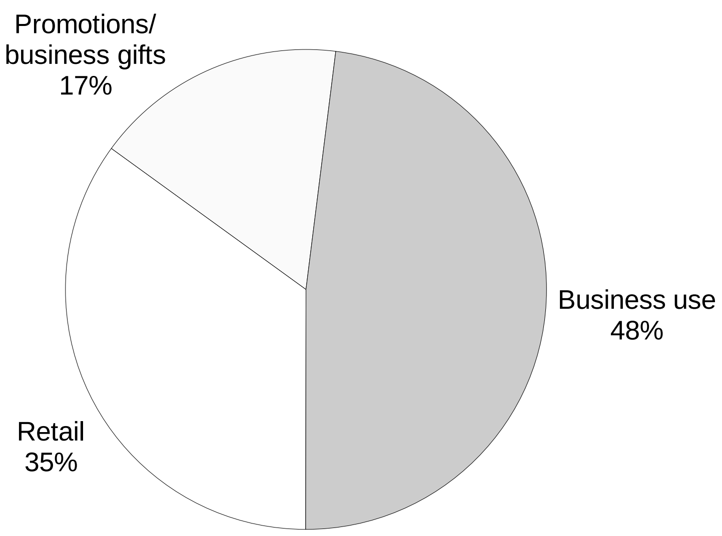


Source: Market Measures.

*Covers 12 months to June 1991.
Note: Figures do not sum to 100 because of rounding.

FIGURE 3.1*(b)*

Overall sales pattern for disposable writing instruments* in the UK, by value†



Source: Market Measures.

*Includes refillables below £2.50.
†Covers 12 months to June 1991.

3.20. Virtually all the operations carried out by a pen manufacturer could in principle be subcontracted to suppliers whose principal work does not relate to pen supply. A quality pen supplier, however, may well feel the need to maintain, or acquire, a competence in a wide range of operations prior to final assembly in order to have sufficient understanding to be able to develop his product.

Demand for writing instruments

Channels of supply

3.21. Writing instruments are sold in a number of ways. Instruments designed for the purchaser's private use or as personal gifts are purchased in the retail market. Alternatively, writing instruments may be bought by businesses for employees' use or to be given away either as promotional gifts or as employee incentives. We describe these three channels as the retail, business use and business gifts markets (see paragraph 3.26).

Disposables and refillables

3.22. By far the largest segment of the market in volume, though not in value terms, consists of disposable products. These constitute the cheap end of the market: individual instruments often cost only pence and are rarely priced above about £2. The rest of the market consists of refillable instruments, with prices starting as low as £1. They are generally designed for greater permanency, with a container or barrel which can be replenished or refilled.

3.23. We have been told that at low prices (up to about £2) a high proportion of consumers do not value the refillability of an instrument at all, and simply regard all instruments up to a certain price as disposable, whether or not they are technically refillable. At higher prices (above £2.50) refillability increasingly becomes a requirement. An ability to refill the instrument marks the boundary beyond which writing instruments increasingly satisfy a number of demands other than simple utility, such as suitability as a gift or fashion accessory. We have received much evidence, from all sides of the trade, that disposables and refillables form separate markets. Although there is some substitutability at the margin between the more expensive disposables and cheaper refillables, disposables were not seen by most suppliers as competing with refillables.

3.24. Suppliers tend to concentrate on either disposables or refillables. There are no technological reasons why this should be so. But brand strategy may encourage specialization. Parker told us that it does not consider its products to be in competition with disposable writing instruments. Instead, it considers itself to be competing in the market for refillable writing instruments retailing at above some minimum price level, which it currently considers to be about £2.50.

3.25. In the rest of this chapter we concentrate on the market for refillable writing instruments (the refillables market), which we equate broadly to those instruments retailing at over £2.50. Market Measures estimated this market to be worth £110 million at retail prices in 1991. It is described as the market for `quality writing instruments', and comprises all those ball point, roller ball, fibre-tip, calligraphy and fountain pens and mechanical pencils with a recommended retail price of £2.50 or more, plus refills. This not only excludes virtually all disposable pens (since there are few, if any, costing over £2.50), but also those refillable writing instruments which retail at under £2.50. Table 3.2 shows Market Measures' estimates of the size of the market, by product and in terms of both volume and value, below and above a retail price of £2.50. In all cases the share accounted for by sales of products above the £2.50 price point is very much greater in value than in volume terms.

TABLE 3.2 **Estimated distribution of sales in 1991* above and below £2.50 price point**

	Total	*Under £2.50*	*£2.50 and above*
		%	*%*
A. By volume ('000 units)			
Ball points	233,644	98	2
Roller balls	21,743	80	20
Fountain pens†	5,393	61	39
Mechanical pencils	6,018	81	19
Calligraphy	430	49	51
Felt tips and markers‡	58,537	99	1
Technical pens‡	388	52	48
B. By value (£m)			
Ball points	90.8	63	37
Roller balls	30.9	37	63
Fountain pens†	38.4	12	88
Mechanical pencils	11.7	35	65
Calligraphy	2.0	15	85
Felt tips and markers‡	35.8	91	9
Technical pens‡	2.5	11	89

Source: Market Measures.

*Year to June 1991.
†Includes disposable and plastic-nibbed fountain pens.
‡These categories are excluded by Market Measures from its definition of the `quality instrument market'.

3.26. The overall writing instruments market (as defined in paragraph 3.11) was estimated by Market Measures to be divided as follows.

TABLE 3.3 **Sales of all writing instruments by channels of supply, by value, 1991***

	%
Retail	53
Business use	27
Promotions/business gifts	20

Source: Market Measures.

*Year to June 1991.

These different channels are treated in some detail, in the context of the over £2.50 refillables market, later in this chapter (see paragraphs 3.54ff).

Demand for refillables

3.27. Suppliers tend to categorize their refillable products in various price bands: low (less than £10), medium (£10 to £50), and high (above £50), though these divisions are imprecise. Much of the information in this chapter is based on the Market Measures study produced for Parker which uses four price bands. The evidence we have received throws little light on the degree of substitutability between products in different price bands.

3.28. Suppliers and retailers also make a clear distinction between the cheaper instruments in the refillables market, displayed for self-selection on open shelves or in hanging racks, in plastic blister packs, and more expensive writing instruments, kept under glass and sold by counter staff. The reason for selling under glass is partly to provide customer service for more expensive products and partly to guard against theft. The price at which products move from self-selection to under glass varies from retailer to retailer, some starting at £10 and others at a higher price, but mostly within the range £10 to £20. Below we consider the market for refillables as a whole and the self-selection and under-glass sectors separately.

3.29. Although there is no clear relationship between price paid and reason for purchase, the cheaper ranges of refillables are most likely to be bought by customers for functional purposes. They would be unlikely to pay more than a few pounds for such an instrument, bearing in mind that cheap and expensive instruments differ little technically. Writing instruments are also very popular as gifts. The price range over which writing instruments may be given as presents is very wide. Even relatively low-priced refillables (from about £5) will often come in a presentation box.

3.30. A number of suppliers have emphasized to us that, especially at the more expensive end of the trade and in the business gifts market, they are competing for their clients' custom with a wide range of products, from luggage and fine crystal to personal organizers, calculators and diaries.

Suppliers

3.31. In the light of Parker's strength in the UK refillables market (see Tables 3.5 and 3.6), we highlight here the main brands and their suppliers to the market for refillable writing instruments retailing at £2.50 and over. We describe first the parties to the merger:

(a) *Parker*, a British company, is by far the largest supplier to this market, though not to all segments of it. Its main supply source is Newhaven, though some products are sourced from France and the US, and certain important manufacturing processes are carried out in France for both the Newhaven and US plants. Parker supplies the full product range (ball points, roller balls, fountain pens and mechanical pencils), and covers the full price range, though its main market strength is below £50.

(b) *Waterman*, owned by Gillette, manufactures in France. Like Parker, it offers a full range of products and prices. However, unlike Parker, its main strength is in the over-£50 segment.

(c) *Paper Mate*, also owned by Gillette, has its main manufacturing source in the US, though it also has manufacturing facilities in other parts of the world, especially South America. Paper Mate products are also sourced from a wide range of contract manufacturers, located principally in Japan, Germany and Italy, but not in the UK. The Paper Mate brand covers all the main product types (fountain pens, ball points, roller balls, mechanical pencils) but 70 per cent, in value terms, are disposables, sold at under £2.50. Its refillables are all in the under-£50 segment, mostly under £10.

Other suppliers include the following, in alphabetical order:

(d) *Colibri* is a British company, marketing a range of fashion accessory products, of which writing instruments are currently the most important component. It sells in all price segments but is strongest in the £10 to £50 range. Its sales of writing instruments consist partly of imports primarily from Germany and Japan, and partly of instruments assembled from components imported from Germany, Japan and other countries.

(e) *A T Cross* (Cross) is a well-known US company, manufacturing writing instruments in the US and Ireland. It supplies all of the main product types, though its principal sales are of ball point pens. Its sales are largely concentrated in the £10 to £100 segment, though it also has a presence in the £100-plus segment. Cross is an important supplier to the jewellery sector and to the business gifts market.

(f) *Diplomat* is a German brand, covering all types of refillables. It entered the UK market in 1990, and has progressively increased sales, especially to department stores and pen specialists.

(g) *Dunhill* is a brand that covers a range of luxury products, of which writing instruments (priced at £50 and above) is only one category. It is owned by Compagnie Financière Richemont AG of Switzerland, which also owns the Montblanc and Cartier brands.

(h) *S T Dupont* is a French company, founded in 1872 and owned for a period during the 1980s by Gillette and now owned by Dickson Concepts (The Dickson Group of Companies) of Hong Kong. It manufactures and markets a wide range of luxury products, of which writing instruments (all of which retail above £50 in the UK) is just one category.

(i) *Elysée* is a brand owned and manufactured in Germany, and until now distributed by the GBA Book Company Ltd (GBA), an independent distributor. Its writing instruments, which cover the full product range, have a distinctive style, and they have made a significant impact in the £10 to £50 price segment in recent years, using very little advertising. The brand was recently purchased by Staedtler, a German company that is strong in the disposables market. Staedtler has started distributing the Elysée brand from January 1993.

(j) *Lamy* is also a brand owned and manufactured in Germany, and distributed in this country by GBA. It has a distinctive style, and has achieved a significant share of the lower-price end of the refillables market.

(k) *L'Plume* is a brand that seems to have been making an increasing, if still relatively small, impact on the market. It is based at The Pen Factory in Treburley, Cornwall. Until a few years ago the company was based in Hong Kong, with UK sales handled by a distributor. A full range of product types is supplied to the market, at retail prices from £8 to £38. Supplies were initially sourced from abroad, but the proportion of UK content has been increasing rapidly.

(l) *Montblanc* is a long-established German brand. It is owned by Compagnie Financière Richemont AG of Switzerland, which also owns the Dunhill and Cartier brands. Montblanc has only recently come to the fore in the UK, with its main fountain pen product, the `Meisterstuck', establishing itself as a `cult pen' in the second half of the 1980s. Though the full product range is supplied, principal sales are of fountain pens. Montblanc products are virtually confined to the expensive end of the market, above £50; and it is widely considered to be the market leader above £100.

(m) *Osmiroid* is a brand of refillables specializing in calligraphy products supplied to the lower-priced end of the under-glass sector. It was a British company until 1989, when it was acquired by Berol, a British manufacturing company with US owners, which is a major supplier of disposables to the UK market.

(n) *Pelikan* is a well-known brand of a German company of the same name, which is a subsidiary of Overpart, of Switzerland. It covers a range of office products in addition to all types of refillable writing instruments. On the Continent it has a strong position in fountain pens sold to schoolchildren, as well as in the under-glass market. It has not yet, however, made signifi-cant gains in the UK market, though it is understood to be trying to do so.

(o) *Platignum* is a long-established British company. It used to be strong in refillables, and still sells into the lower end of that market. Its principal strength now lies in disposables and cheap (under £2.50) refillable products aimed at the school market.

(p) *Sheaffer* is a long-established US pen manufacturer, currently owned by the Swiss investment group, Gefinor. It makes a full range of products, but the bulk of its UK sales are of ball points and fountain pens. Although it sells in all price segments, Sheaffer's main strength is in the £10 to £100 segment.

(q) *Tombow* is the brand name of a large Japanese manufacturer of writing instruments, mainly disposables, but also refillables up to about £150. Its products are widely distributed in the UK, and are distinguished by their unusual design features.

The above list only covers the most familiar names in the refillables market. There are many others, including a number which are much stronger in other parts of the market, namely disposables (*Pilot, Pentel*) and technical instruments (*Staedtler, Rotring*)-see Appendix 3.1 for a list.

(r) *Own-label* refillable pens have been introduced by some retail groups to their stores. W H Smith (Retail) Ltd (W H Smith), the strongest individual UK retailer of writing instruments, has introduced a number of such products, especially in the disposables market. It has also two exclusive brands (Signature and Messenger), made especially for it by a major German pen supplier. These own-brands, covering the usual range of products, have started to make inroads in the two lower-price market sectors (ie £2.50 to £9.99 and £10 to £49.99), taking between 3 and 4 per cent of each in 1991. W H Smith also sells instruments under its own label, for example the `Student' and `Graduate' pens, at £1.95 and £2.85 respectively.

3.32. Suppliers usually offer their products in the form of named ranges. An individual range often covers a number of different types of product (ie fountain pens, ball points etc) and a number of finishes, with quite a wide range of prices. Eleven of Parker's named ranges include fountain pens, while 13 include ball point pens. Ten of these ranges include both kinds of pen, five of them also including roller balls. A similar situation obtains with Waterman's ranges. Prices range up to £200 or more, some going as high as several thousand pounds per instrument, though suppliers sell very few of these.

Suppliers' market shares

3.33. An analysis based on an undifferentiated market would conceal the competitive impact of niche suppliers, and would also conceal the difference in sales patterns achieved by the parties to the merger. While the main suppliers cover the full price range for refillable writing instruments, some concentrate their efforts, or at least find most of their sales, in particular price segments. Therefore in paragraphs 3.36ff we present estimates of market shares achieved in different price ranges of the refillables market. The data were compiled by Market Measures using survey methods, and relate to the 12 months to June 1991.

The market for refillable writing instruments over £2.50

3.34. The Market Measures survey referred to in paragraph 3.10 estimated the size of the market for refillable writing instruments retailing at over £2.50 at £110 million in the year to June 1991. The same survey estimated the size of the writing instruments market as a whole at £226 million. The wider definition covers disposables while the narrower one does not. Disposables are specially important in the business markets, where functionality and price are of particular importance and where there is relatively little demand for the more expensive writing instrument. Table 3.4 breaks down the information already given in Table 3.3.

TABLE 3.4 **Overall sales pattern for writing instruments in the UK, 1991***

per cent

	All writing instruments	*Over £2.50 refillables*	*Other writing instruments*
Retail	53	72	35
Promotions/business gifts	20	23	17
Business use	27	4	48
Total	100	100†	100
	(£226m)	(£110m)	(£116m)

Source: Market Measures.

*Year to June 1991.
†Does not sum to 100 because of rounding.

3.35. A large number of brands are supplied to the UK refillables market. We have identified around 40 such brands currently in stock in the high street (see list in Appendix 3.1). Of these, the main British supplier is Parker, though we have been told that L'Plume (assembled and increasingly manufactured in Cornwall) has been growing quickly in the past year, and Colibri has an assembly operation in Sussex. The only other brands of refillables sourced in the UK are Platignum, mainly manufacturing products at under

£2.50; Yard-o-Led, manufacturing a small number of very expensive writing instruments in Birmingham, and Osmiroid, a subsidiary of the US company Berol. All other brands of refillables are imported.

Suppliers' shares of the market for refillables

3.36. It is exceptionally difficult to compile market shares in the writing instruments market because of the large number of potential outlets (including businesses buying on their own account) and the number of suppliers to the market, nearly all of them supplying from overseas. The trade association, the Writing Instruments Association, has been unable to provide estimates of the total market because important suppliers are not prepared to supply it with information on their sales.

3.37. Table 3.5*(a)* gives Market Measures' estimates of total sales in the UK refillables market in the year to June 1991, by price segment, together with their estimates of market shares. Only those of Parker, Waterman and Paper Mate are separately identified. Table 3.5*(b)* sets out the estimated retail value of the sales corresponding to the market shares in Table 3.5*(a)*. Of the sales figures in Table 3.5*(b)*, those relating to Parker are more firmly based than those for Waterman or Paper Mate since Parker collaborated closely with Market Measures in its market survey.

TABLE 3.5*(a)* **Estimated shares of 1991* UK market for refillable writing instruments† and refills**

per cent

	Retail price bands					
	£2.50-£9.99 (a)	*£10-£49.99 (b)*	*£50-£99.99 (c)*	*£100+ (d)*	*Total (a)-(d)*	*Refills*
Parker	73.9	45.7	30.7	25.1	54.6	52.0
Gillette-Waterman	0.4	7.2	9.1	17.8	5.3	6.7
Gillette-Paper Mate	3.2	2.0	-	-	2.1	12.5
Parker and Gillette	77.5	54.9	39.8	42.9	62.0	71.2
Others	22.5	45.1	60.2	57.1	38.0	28.8
Total share	100	100	100	100	100	100
Total value (£'000)	43,350	31,590	12,470	8,660	96,070	13,320

Source: MMC based on Market Measures.

*12 months to June 1991.
†Excludes markers, felt-tip pens and technical writing and drawing instruments.

TABLE 3.5*(b)* **Estimated value of sales (retail prices including VAT) in 1991* UK market for refillable writing instruments† and refills**

£'000

	Retail price bands					
	£2.50-£9.99 (a)	*£10-£49.99 (b)*	*£50-£99.99 (c)*	*£100+ (d)*	*Total (a)-(d)*	*Refills*
Parker	32,050	14,440	3,830	2,170	52,490	6,930
Gillette-Waterman	180	2,260	1,130	1,540	5,110	890
Gillette-Paper Mate	1,400	630	-	-	2,030	1,670
Parker and Gillette	33,630	17,330	4,960	3,710	59,630	9,490
Others	9,720	14,260	7,510	4,950	36,440	3,830
Total	43,350	31,590	12,470	8,660	96,070	13,320

Source: MMC based on Market Measures.

*12 months to June 1991.
†Excludes markers, felt-tip pens and technical writing and drawing instruments.

3.38. We have used the Market Measures study to give a general indication of market shares. We have tested its estimates, which are the only ones we have seen that provide us with comprehensive data, using the information provided to us by individual suppliers.

3.39. Table 3.6 sets out individual suppliers' estimates of their 1991 sales of refillables, in the market price segments proposed by Market Measures. The figures are given in retail prices, including VAT, which has involved a process of grossing up suppliers' turnover figures to arrive at estimated retail sales figures, using factors individually agreed, where possible, with individual suppliers. Not all suppliers to the refillables market have provided us with this information, so that the sum of the figures in the table falls short of the value of the whole refillables market. We believe, however, that we have included all the suppliers with significant sales in the market.

3.40. Comparing Table 3.5*(b)* with Table 3.6[1] shows a reduction in Parker's sales, concentrated in the lowest price segment, between the Market Measures survey period (12 months to June 1991) and Parker's financial year (to February 1992). We were told by Parker that this was due to a sharp reduction in its sales to the business gifts market. Without estimates of changes in the total size of the market we are unable to come to a firm view about the change in Parker's share, either of the refillables market as a whole or of particular price segments. However, a comparison of Market Measures' estimates of other companies' sales, underlying Table 3.5*(b)*, with those companies' estimates of their own 1991 sales in Table 3.6 indicates that there has been a reduction in Parker's market share, especially in the £2.50 to £9.99 price segment.

3.41. A further comparison of Tables 3.5*(b)* and 3.6, in respect of sales by Waterman and Paper Mate, shows a broadly similar picture for total sales, though with some increase in Paper Mate sales, and for the distribution of sales among price segments. Inevitably there are detailed differences, but we are satisfied that the similarities are sufficient to justify using the Market Measures survey to describe the broad pattern of market shares in the refillables market.

3.42. While there are a large number of companies in the market, only a few have significant shares of the market for refillables as a whole, though a small share of the overall market does not preclude more significant shares of particular price segments. From Table 3.5*(a)*, which is based on Market Measures' estimates for the year to June 1991, it appears that Parker then had 55 per cent of the value of refillables sales, covering all price segments, while Waterman and Paper Mate had market shares of about 5 per cent and 2 per cent respectively. From Table 3.6, Parker's two nearest competitors, Sheaffer and Cross, each had less than one-fifth of the value of Parker's sales in 1991, with two others, Montblanc and Waterman, each having around one-tenth. Sales by Paper Mate, by another supplier, Elysée, and by W H Smith's own brands were significantly less than this and of a similar order of magnitude to one another.

3.43. It is useful to consider the market segment up to £9.99, estimated by Market Measures to account for over two-fifths of the total refillables market, separately from that relating to refillables costing £10 and over. Only Parker, Sheaffer and Waterman, among major suppliers, cover the full price range. Moreover, Parker is particularly strong in the lower-price segment.

3.44. According to the Market Measures survey, Parker had about 74 per cent of the £2.50 to £9.99 segment of the refillables market. Table 3.6 identifies Paper Mate as Parker's nearest rival in this segment in 1991, with less than one-tenth of its sales. The same table also identifies a number of brands (W H Smith's own brands, Sheaffer, Lamy, Osmiroid, L'Plume) with around one-twentieth of Parker's sales. However, Parker's overall share of this price segment is higher than its share of retail sales into this segment.

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[1] It should be noted that the two sets of data are not directly comparable. Table 3.5 is based on estimates of trade sales to consumers whereas Table 3.6 is based on actual sales by suppliers to the trade, grossed up to retail values.

TABLE 3.6 **Individual suppliers' estimates of their own sales of refillable writing instruments to the UK market in 1991,* expressed at retail prices**

	Retail price bands						*£'000*
	£2.50-£9.99 (a)	*£10-£49.99 (b)*	*£50-£99.99 (c)*	*£100+ (d)*	*Total (a)-(d)*	*Total (b)-(d)*	*Refills*
Parker	26,696	13,392	1,837	2,201	44,126	17,430	10,069
Gillette-Waterman	361	2,197	1,056	783	4,397	4,036	460
Gillette-Papermate	2,157	834	-	-	2,990	834	1,527
Parker and Gillette	29,214	16,423	2,893	2,984	51,513	22,300	12,817
Sheaffer	1,399	4,159	2,052	333	8,276	6,544	1,144
Montblanc	-	123	1,474	3,110	4,706	4,706	212
Alfred Dunhill	-	-	63	123	186	186	8
Cross	-	5,860	1,880	220	7,960	7,960	1,000
Elysée	-	2,286	340	-	2,626	2,626	464
Lamy	1,122	161	-	-	1,283	161	227
L'Plume	898	898	-	-	1,796	-	95
Pentel	400	-	-	-	400	-	100
Staedtler	496	-	-	-	496	-	300
Osmiroid	1,420	460	-	-	1,880	460	390
S T Dupont	-	-	214	214	428	428	22
Rotring	430	117	3	-	550	120	25
Diplomat	100	150	250	-	500	400	-
Pilot	130	-	-	-	130	-	-
Pelikan	N/A	N/A	N/A	N/A	800	N/A	-
Platignum	1,600	400	-	-	2,000	400	-
Colibri	460	1,120	190†	-	1,770	1,310	90
W H Smith own brands	1,590	1,148	-	-	2,738	1,148	1,355

Source: MMC, based on data from individual suppliers.

*A mixture of calendar and financial years.
†£50 and above.

3.45. Whereas the retail sector accounts for almost three-quarters of refillables over £2.50 (Table 3.4), in the below-£10 segment it accounts for little over two-fifths of sales, and business gifts over half, as indicated in Table 3.7.

TABLE 3.7 **Components of the £2.50 to £9.99 refillables segment, 1991***

	%	*£m*
Retail	43	18.5
Promotions/business gifts	52	22.3
Business use	5	2.3
Total	100	43.1

Source: Market Measures.

*Year to June 1991.

3.46. We examined Market Measures' breakdown of the £2.50 to £9.99 segment. While Parker's share of the whole segment was 74 per cent, its share of sales in this segment to the business gifts market was estimated at 82 per cent and to the retail market at 66 per cent, the latter significantly below Parker's overall share of the segment. Retail sales in this segment accounted for 23 per cent of all retail sales of refillables. Waterman's and Paper Mate's shares of the retail market in this price segment were estimated by Market Measures at 1 per cent and 6 per cent respectively.

3.47. In the under-glass sector, with prices at £10 and over, suppliers' estimates in Table 3.6 indicate that Parker, though still the leading supplier, has a much smaller share. The retail value of sales by one supplier, Cross, in this segment in 1991 were almost half those of Parker, while those by two other suppliers, Sheaffer and Montblanc, were almost two-fifths and over one-quarter of Parker's sales respectively. Indeed, Montblanc appears to be the leading seller of writing instruments priced at over £50.

3.48. Within the under-glass sector, Parker has the largest share of sales in the £10 to £49.99 price segment, the largest segment of the under-glass sector. Within this segment, however, Parker faces significant competition from two suppliers, Cross and Sheaffer, with around two-thirds and one-third of Parker's sales respectively. Between £50 and £99.99 Parker's sales are of roughly the same order as those of a number of brands, namely Sheaffer, Cross, Montblanc and Waterman. At prices of £100 and over, Parker appears to be second to Montblanc, with other suppliers a long way behind. Waterman is stronger in the high-price than in the low-price segments. Sheaffer appears at its strongest in the two middle segments. Cross's profile is somewhat similar, except that it is not represented at all in the lowest segment. It is known to be particularly strong among sales through jewellers and in the business gifts market.

3.49. Shares of suppliers of refills tend broadly to reflect the shares taken by the relevant brands in the writing instruments market. Although alternative refills are available for most manufacturers' products, most consumers appear to prefer refills which are of the same brand as the original writing instrument. We were told that the consumer does not know if he can rely on an anonymous refill for his expensive writing instrument, and the cost of the refill is not sufficient to make it worth taking a risk. Where a retailer can put his own assurance on refill quality (as in the case of W H Smith), the consumer seems more likely to accept an alternative refill. Parker has by far the greatest sales of refills. Comparison of Tables 3.5 and 3.6 show significantly higher sales in the later period. The next highest sales of refills (about one-seventh of Parker's sales) in 1991 were by W H Smith.

Recent developments in market share

3.50. Parker has shown us the results of two earlier market surveys carried out on its behalf by Frank Lynn in 1982 and 1985 as well as the 1991 survey by Market Measures. Though not on exactly the same basis, they indicate the main changes in market share that appear to have occurred over the past decade:

(a) *£2.50 to £9.99 segment*. The most striking change has been the more than doubling of Parker's share since 1982 (from 30 to 69 per cent). This segment of the market appears to have contracted while Parker's sales in it have held up. Substantial falls were experienced by Platignum, Paper Mate and Sheaffer, in the latter case due, we have been told, to a conscious decision regarding product positioning (see paragraph 5.3).

TABLE 3.8 **Brand shares by value, £2.50 to £10***

per cent

	1982	*1985*	*1991†*
Parker	30	43	69
Paper Mate	20	23	3
Others	50	34	28

Source: 1982 and 1985 Frank Lynn; 1991 Market Measures.

*£2 to £8 segment in 1982 and 1985.
†Year to June 1991.

(b) *£10-and-over segment*. The brand names Elysée and Montblanc do not figure in the earlier market studies, reflecting their growth in importance since 1985. In the 1991 estimates, whereas Elysée has its main strength between £10 and £50, Montblanc's strength is entirely in the over-£50 segment. Paper Mate was estimated to have a significant presence in this segment in 1982, and even in 1985 (over 10 per cent), but very little in 1991. The reasonably substantial share of this segment estimated for Waterman (currently about 9 per cent) may be of recent vintage, since no Waterman share is recorded in the 1985 survey. Sheaffer lost market share between 1985 and 1991, as did Parker. Parker has maintained a leading position in the £10 to £50 segment, while for instruments costing over £50 it has lost its lead to Montblanc. Apart from Montblanc, Elysée and Waterman, there appears to have been other considerable entry into the £10 to £50 segment since 1985, when the top four suppliers were estimated to have accounted for well over 90 per cent of sales at prices over £8. By 1991, the top four suppliers in this segment (with Montblanc having displaced Paper Mate from the list) accounted for only three-quarters of sales value.

TABLE 3.9 **Brand shares, over £10***

per cent

	1982	*1985*	*1991*
Parker	48	55	36
Waterman	2	-	9
Paper Mate	15	12	1
Others	35	33	54

Source: 1982, 1985 Frank Lynn; 1991 Market Measures.

*Over £8 in 1982 and 1985.

Market shares by product

3.51. We have also looked at estimates of market shares by product category (ball points, roller balls, fountain pens and pencils). They are often sold in sets, and, even if not, a particular product range with a given name and `finish' will often include all of these product types. In price terms, the fountain pen is the premium product, usually significantly more expensive than other products in the set. Next in price usually comes the roller ball, followed by the ball point pen and mechanical pencil at similar prices. All the major suppliers of refillables supply a full range of products. Success in promoting awareness of a brand tends to promote all the products covered by that brand.

3.52. Table 3.10 shows how the total refillables market (excluding refills, felt-tip pens, markers and technical instruments) breaks down, by value and volume, among the main product types.

TABLE 3.10 **Shares, by type of product, of total over-£2.50 refillables market,* 1991,† by value and volume**

per cent

	By value	*By volume*
Fountain pens	35	17
Ball point pens	35	40
Roller balls	20	33
Mechanical pencils	8	9
Calligraphy	2	2

Source: Market Measures.

*Excludes felt-tip pens, markers and technical pens.
†Year to June 1991.

3.53. The shares of the different product types vary considerably between price segments. Thus, while fountain pens accounted in 1991 for about 70 per cent of sales in the £100-plus price segment, they only accounted for 16 per cent in the £2.50 to £9.99 segment. By contrast, ball point pens account for about 40 per cent of sales in the lowest price segment but only about 20 per cent in the highest segment.

Main channels of sales

3.54. Most sales of refillable writing instruments are to the retail and business gifts markets, with a very small share going to the business use market. We look at each of these in turn.

The retail market

3.55. Retail sales of refillables were estimated by Market Measures to be worth £80 million in 1991, accounting for 72 per cent of total refillables sales. Table 3.11 compares the retail distribution of refillables with that of writing instruments as a whole.

TABLE 3.11 **Distribution of sales of writing instruments by type of retailer, 1991***

per cent

	Refillables £2.50+	*All writing instruments*
Department stores	38	26
Small independents	27	36
Multiple retailers	17	17
Stationers	15	20
Pen specialists	3	2
Total (£m)	79.2	119.8

Source: Market Measures.

*Year to June 1991.

The main difference between the two patterns of distribution is the far greater importance of department stores in the distribution of refillables over £2.50 than of writing instruments in general.

3.56. There are also a number of significant differences in the relative importance of the various price bands for different channels within the refillables market, as indicated by Table 3.12.

TABLE 3.12 **Distribution of sales of writing instruments by type of retailer and by price band, over-£2.50 refillables retail market, 1991***

per cent

	Price bands			
	£2.50-£9.99	*£10-£49.99*	*£50 and over*	*Total*
Department stores	7	34	59	100
Small independents	31	62	7	100
Multiple retailers	63	32	5	100
Stationers	47	46	7	100
Pen specialists	18	48	33	100
All retailers	27	43	30	100

Source: Market Measures.

*Year to June 1991.

Table 3.12 shows the relative importance to multiple retailers of the lowest price segment, to small independents of the £10 to £50 price range and to department stores of the sale of the most expensive writing instruments.

Department stores

3.57. In 1991 some 38 per cent of total retail sales of refillables, worth some £30 million, were through such stores as Selfridges, store chains such as John Lewis and House of Fraser, smaller groups such as Beatties, some Boots stores and almost 500 independent department stores. Most of these have a dedicated pen department or section carrying a variety of makes and types of product, with a heavy emphasis on higher-priced models. Suppliers attach great importance to the display space given to each brand. Predominantly they sell directly to department stores and provide consultants or demonstrators to key outlets (see paragraphs 3.69 to 3.73). Suppliers may also be involved in fitting out pen departments (see paragraph 3.68).

Small independent retailers

3.58. This category includes confectioners, tobacconists and newsagents (CTNs), garage forecourts, convenience stores and sub-post offices. Because of the large number of outlets (said to be around 35,000) classified here, this is the second largest retail channel for refillables, accounting for about 27 per cent of retail sales, worth £21 million. Most outlets are serviced by one or more of a small number of wholesaler groups specializing in this sector, such as Club Group, Link and Key. Most sales of refillables are in the lowest price category, often those of the leading brand only. Jewellers and fashion boutiques in this sector normally stock higher-priced models of a range of brands, supplied direct by manufacturers. Cross, for instance, sells well in jewellery stores, while fashion brands like Cartier or Yves Saint Laurent have a relatively high chance of being stocked in such outlets.

Specialized multiples

3.59. Specialized multiples, with almost 4,000 outlets in all, include the main national news agency chains, such as W H Smith, Menzies and Martins. W H Smith in particular is a major influence in the retailing of writing instruments, being Parker's largest single customer by far and selling through 400 outlets. Market Measures estimated that specialized multiples accounted in 1991 for 17 per cent of retail sales of refillables, worth £13 million. Products are sold both from self-service displays in blister packs and by staff from specially fitted counter displays. Generally, orders are placed by a central buying office direct with the manufacturer and shipped to a central distribution warehouse. This sector has been growing in strength and increasing the concentration of buying points in the industry in recent years.

Stationery stores

3.60. Stationery stores, with more than 1,600 outlets in all, account for 15 per cent of retail sales of refillables, worth £12 million. They include all specialist retail stationers and retail office suppliers such as Ryman. Many have a specialized section for writing instruments. Counter displays for higher-priced instruments may be provided by suppliers. Most stationers are independently owned, although there are some chains. Leading brands are usually bought directly from manufacturers, though purchases are also made from wholesalers. Sales cover a wide price range.

Pen specialists

3.61. There is a small number of shops specializing in the selling of writing instruments and accessories, and accounting for 3 per cent of retail sales of refillables, worth £2 million. They tend to carry the full range of most major manufacturers but specialize in the sale of higher-price items, especially fountain pens. Most are independent and buy their supplies directly from manufacturers.

Other categories

3.62. Other retail outlets include supermarkets and hypermarkets, which have added branded consumer products from outside their traditional food lines in the last few years; catalogue stores such as Argos; mail order retailers, which select individual products for current offer in their catalogues; and tax-free and in-flight sales.

Competition among suppliers

Retail marketing

3.63. Marketing practices vary from one supplier to another, depending on the positioning of the brand in the market and resources of the supplier concerned. Table 3.13 indicates very broadly the main areas of promotional expenditures by the parties to the proposed merger. Information from a range of suppliers other than the parties to the merger indicated a rough 50:50 split of expenditures between advertising and other promotional expenditures.

TABLE 3.13 **Sales promotion expenditure, 1991**

	Parker		*Waterman*		*Paper Mate**	
	£'000	*%*	*£'000*	*%*	*£'000*	*%*
Advertising	1,226	26	116	28	58	9
Consultants/demonstrators	389	8	79	19	-	-
Merchandising	746	16	89	21	-	-
Other†	2,440	51	135	32	609	91
Total	4,801	100	419	100	667*	100

Source: Parker and Gillette.

*The bulk of Paper Mate's expenditure relates to disposables.
†Includes cost of public relations, samples, visits to trade fairs, hospitality, market support, direct mail.

Media advertising

3.64. Consumer advertising usually promotes the brand rather than a specific model. Although higher-priced instruments are featured, lower-priced products benefit from the brand's perceived values. The advertising:sales ratio is small, at 0.65 per cent (*Advertising Association Year Book 1992*). A considerable amount of advertising is done through the trade press.

Catalogue advertising

3.65. When mail order firms, wholesalers or gift houses advertise their wares to potential customers in their catalogues, they will normally expect the supplier to pay a proportion of the catalogue costs as a condition of inclusion.

Promotions to the wholesale and retail trade

3.66. Suppliers may at times simply offer additional discount and/or extended payment terms (occasionally even `sale or return'). Often promotions will include a benefit to the consumer, such as a reduced price, or extra product (eg a free ball pen with a fountain pen purchase), or £5 off the price of a new pen if an old pen is handed in, or free engraving. Promotions tend to cluster round peak selling seasons, especially Christmas and `back to school', and also gift-related days such as Mother's Day and Father's Day.

Display showcases

3.67. Higher-priced pens are usually presented in a display showcase, under glass to prevent pilferage. The cases may be purchased from specialist independent cabinet-makers, but are more commonly obtained from one or other major writing instrument supplier. The cost of a 1-metre cabinet currently ranges from £800 to £1,200. When a branded cabinet is provided to the retailer on free loan, it should in principle only be used to stock his brand, though suppliers told us that this proviso was not enforced in practice. Alternatively, one or more showcases may be purchased by the retailer who will recover the cost from individual suppliers whose products he agrees to display. In either case the cost of cabinets and their furnishings tends to be borne by the pen supplier rather than by the retailer.

Pen department refits

3.68. Every four years or so the pen departments in large outlets need a refit. Some large suppliers have developed an expertise in doing this, and are frequently successful in offering their services to plan the layout and build the necessary display cases. The cost of the new department is charged to the store, less the cost of the supplier's proposed share of the display space. The retailer then recovers the residual cost from other suppliers for the space they use. Some suppliers have been concerned that whoever designs the new pen department is likely to favour its own display area, especially in terms of location. A number of large stores (House of Fraser, Selfridges, John Lewis, W H Smith), however, make a point of keeping pen department design and refurbishment under their own control.

Consultants/demonstrators

3.69. Most of the main suppliers employ a number of sales consultants or demonstrators. They may be full-time, work part-time throughout the year, or be employed intermittently at seasonal peaks. The number of consultants employed is very much greater at Christmas than at other times of the year.

3.70. From the retailer's viewpoint the job of a consultant is to supplement, and sometimes replace, the retailer's own staff at special pen counters. The cost of these consultants is usually borne by the supplier, even where the consultant is treated as an ordinary member of the retailer's staff.

3.71. From the supplier's viewpoint the consultant's function is to sell the supplier's branded products, for which he or she is sometimes paid commission in addition to a basic salary. Parker's practice is to pay a small commission to its full-time consultants for sales of Parker's higher-value products. Such payments represent approximately 5 per cent of these consultants' earnings. No commission, however, is paid to part-time consultants or engravers, including those employed at peak selling periods. In Gillette's case, all their (full-time) consultants, and most of their (part-time) demonstrators, receive a small commission on their Waterman sales, in addition to a basic salary.

3.72. The consultant is also expected by the retailer to be prepared to sell other brands if requested by customers. Though a few consultants may be identifiable by the wearing of uniform and a lapel badge bearing the supplier's logo, such identification is not normally insisted on by either the supplier or the retailer. In some cases the retailer forbids any such identification. It is unlikely that the retailer's customers will be aware that they are being advised about their prospective pen purchases by someone who is not impartial.

3.73. Though providing a consultant to a store clearly increases the chance of selling product from that store, such provision is not always voluntary on the part of the supplier. Whether or not consultants are to be provided may form part of the negotiations which determine whether, and how much, display space is to be allowed to a supplier. Some stores insist that a consultant is provided by any supplier wishing to obtain display space. We were told of one case where consultants could only be provided for stores where they could be economically justified if they were also provided for other stores in the group where they were not. On the other hand, the John Lewis Partnership prefers to rely on its own trained staff and does not have pen suppliers' consultants in its stores.

Other forms of marketing expenditure

3.74. Other forms of marketing expenditure may include provision of point-of-sale material, packaging, attendance at exhibitions, corporate hospitality and prizes (for example, for national newspapers' competition crossword puzzles).

Price competition between suppliers

3.75. Prices tend to be clustered at `price points', usually £5 or £10 apart in the higher price ranges. We were told that price points reflect the industry's view of the prices that purchasers will regard as appropriate for particular types, styles and finishes of pen. Sometimes they are regarded as a marketing barrier. On a recent occasion, for instance, Parker raised its price for a Jotter ball point from £4.99 to £5.25, but was forced to retract when sales dropped.

3.76. Price competition mainly takes the form of discounts to retailers against a recommended retail price. The growing strength of some major retailers has meant that average discounts have tended to rise in recent years. This has resulted in a widening of the spread between the basic discount and those available for either higher volumes or by individual negotiation. We have not, however, detected significant differences as between individual suppliers in the level of the standard discounts that they offer to retailer customers. One major firm's discounts, which we believe to be representative, range from about one-third, for smaller retailers, to almost 60 per cent for large retailers, calculated on recommended retail price, exclusive of VAT. In addition, variable retrospective discounts may be granted to certain customers if they meet sales targets which are usually based on previous sales performance. Such discounts are usually applied to the whole of a customer's purchases, but they may sometimes be limited to those of a particular category, eg purchases of higher-priced products.

Barriers to entry to the retail market for refillables

3.77. There are few technical barriers to entry. The product is easily transportable, and most supplies to the market, other than those of Parker and a few other suppliers with small shares of the refillables market, are imported. Moreover, we were told that it is feasible for a potential market entrant to purchase the necessary technical expertise as well as basic parts and components from sources in various parts of the world to put together writing instruments that perform as well as most already in the market-place. L'Plume (The Pen Factory) entered the market on this basis, though, we were told, it is now progressively doing more of its own manufacturing.

3.78. Alternatively, it is possible to market pens produced by an established manufacturer which does not already have a significant presence in the market. W H Smith's promotion of imported pens under the brand names of Signature and Messenger is an example of this.

3.79. We have been told that brand awareness and loyalty are of considerable importance. A new entrant is at a disadvantage in competing with brands such as Parker, Waterman and Sheaffer, which have been household names for many years. Creating brand awareness through advertising may be a burden on a new entrant who has to amortize its cost over what, at least to start with, will be a small number of sales. Such expenditure may help to achieve distribution as well as consumer sales. Nevertheless, a number of brands, notably Montblanc and Elysée, appear to have established themselves in the market without advertising heavily. Moreover, some brands were initially established in areas other than writing instruments. The role of high-priced pens as a fashion accessory or status symbol has created opportunities for brands such as Cartier and Yves Saint Laurent and potentially many others.

3.80. The potential new entrant must get his product into a sufficient range of outlets to be able to get a reasonable volume of sales. The growing concentration of the retail market, and the strength of individual retailers, can reduce the potential cost facing new entrants by reducing the number of selling points required to achieve an adequate level of distribution. Elysée, for example, managed to find acceptance in a sufficient number of department stores to develop substantial sales in the medium-price band, while Diplomat, a substantial German brand little known to UK consumers, is currently being promoted by Selfridges. Marksman, another German brand, has partly displaced Parker among the products sold by Argos, the retail catalogue chain.

3.81. The marketing costs facing a new entrant include the cost of the discounts that must be provided to wholesalers or retailers. New suppliers will normally have to offer relatively favourable terms to the retailer in order to get his product accepted. We have been told of instances of new entrants placing their products on a sale or return basis in order to overcome this initial hurdle.

Actual and potential entry to the retail market

3.82. Though there are costs of entry, there is a significant number of full-line suppliers of branded products, notably in Japan but also elsewhere in Europe, who could afford to enter the market. Zebra is an example of a strong overseas (Japanese) company, supplying a full range of disposables and refillables in its home market, which has just set up a UK subsidiary, initially selling disposables but with ambitions, about which they informed us, to enter the refillables market.

3.83. A number of cases of successful entry to the refillables market in the last five years include Montblanc, Elysée, Lamy and L'Plume, which have taken market share from established operators, including Paper Mate. Brand names such as Diplomat, Tombow and Pelikan are becoming more familiar in the market.

3.84. Potential entrants to the over-£2.50 refillables market may also come from established suppliers to the UK market of disposables and cheaper refillables. A number of major companies (eg Pilot, Pentel, Staedtler) already compete with some products at the lower end of the refillables market and may be considered as potential competitors to the established suppliers, although none so far has made a significant impact in this market. Staedtler has entered the under-glass sector through its recent purchase of Elysée, rather than under its own name, and has the financial and marketing strength to compete vigorously.

Competition between retailers

3.85. Apart from the special price promotions in which manufacturers collaborate with individual retailers, most sales in the retail sector are made at manufacturers' recommended prices. Retailers compete in terms of service, product range, ambience, and expertise. There are, however, some retailers selling below manufacturers' recommended retail price. For example, Argos (a catalogue retail store) promotes substantial savings off listed writing instruments; Partners, Worrals, Kings Stationers and Stationery Plus are retail chains specializing in selling at discounted prices, mainly lower-priced instruments.

The promotion/business gifts market

3.86. Almost one-quarter of sales of refillables were estimated by Market Measures to be sold into the business gifts market. This market meets the demands of companies for products carrying their logo to be given away, especially to customers and suppliers, in order to engender goodwill and to promote the donor company. Combined with sales to businesses of products purchased for special occasions, such as leaving gifts, and to provide rewards and incentives, it is part of a very wide market. The total market for business promotions and incentives was recently estimated by Mintel to be £1.32 billion.

3.87. The promotional gifts market alone was valued by Mintel at £293 million, of which pen purchases were estimated to account for £75 million (about one-quarter of the total). Other products with major shares of this market are diaries/personal organizers (18 per cent), golf balls (17 per cent), calculators (7 per cent) and umbrellas (6 per cent).

3.88. In the promotional gifts market disposables compete directly with refillables. Products tend to be purchased in large quantities and to be disposables of low unit value, often only pence. There is, however, also a significant, if less regular, demand for higher-quality products, and more expensive pens have been found to be competitive against other kinds of product in this area.

3.89. The value of sales of over-£2.50 refillable writing instruments to this market have been estimated at £26 million in 1991. Sales were divided into the following price segments and product categories.

TABLE 3.14 **Sales of refillables to the business gifts market, by price segment and product, 1991***

	%
£2.50 to £9.99	88
£10 to £49.99	9
£50 and over	4
Fountain pens	16
Roller ball pens	43
Ball point pens	34
Mechanical pencils	8

Source: Market Measures.

*Year to June 1991.

3.90. Companies may purchase their requirements either direct or through one of a number of specialist gift houses, or `jobbers'. Mintel estimated that more than half such purchases are made direct. The jobber has the advantage that he can offer the customer a wide choice of products. These gift houses will supply a wide range of merchandise overprinted with a company's logo, including a wide choice of writing instruments. They expect a supplier whose produce is included in their catalogue to contribute to its cost.

3.91. A company that has specific requirements may arrange for the necessary service directly with a writing instruments supplier. `Badging' the product with the company's logo may also be arranged independently.

3.92. Parker was one of the first companies to target this market with a strong brand name, setting up its own sales force and printing operation. The policy has proved very successful, and over two-thirds of Parker's business gift sales in the UK are currently done direct. Parker, however, continues to sell through gift houses for smaller orders.

3.93. Corporate gifts which cost the purchaser up to £10 (excluding VAT) can be treated as business expenditures, on which VAT can be reclaimed and which are themselves exempt from taxation. We have been told that the recommended retail price is likely to be up to three times the purchase cost in this sector. The price limit, therefore, seems high enough not to be a deterrent to the purchase of low- and medium-price refillables in the corporate gifts market.

3.94. Market Measures estimated that 90 per cent, by value, of sales of refillables to the business gifts market are in the lowest price segment, with a retail value between £2.50 and £10. Parker is by far the market leader, with 82 per cent of business gift sales in this price segment and a 74 per cent overall share of sales of refillables to the business gifts market.

3.95. Brand awareness is an important factor in the business gifts market, ensuring the acceptability of the product and adding to the value of the gift. Parker's strength in the writing instruments segment of the business gifts market reflects its strength in the price segment where a large proportion of purchases take place.

3.96. We have been told that this is a very competitive market, with competition to suppliers of refillables coming from suppliers of disposables as well as a very diverse range of other goods which are suited to this market. Buyers in the market are very knowledgeable and are able to obtain supplies if required from many parts of the world.

The market for business use

3.97. This market covers the demand by businesses for writing instruments for work purposes. It was estimated by Market Measures to account for 27 per cent of the market for all writing instruments but most purchases are of strictly functional, low-value, disposable items. Market Measures has estimated that only about £5 million sales of refillables were made to this market in the year to June 1991, of which 98 per cent were in the £2.50 to £10 price band.

3.98. Channels of supply to this highly competitive market are different from those of the other markets identified in this chapter. National stationery wholesalers purchase supplies direct from manufacturers and supply them to about 6,000 dealers of various kinds and sizes who sell direct to their clients. Office stationery supplies (including writing instruments) may also be obtained through specialist mail order or via other specialist wholesale businesses.