

4 Views of main parties

4.1. This chapter summarizes the views put to us by Gillette and Parker in their individual oral and written submissions.

Reasons for the proposed acquisition

4.2. Gillette told us that when invited to bid for Parker it was attracted by what it considered to be the unique opportunity such an acquisition provided for it to expand its international interests in the writing instruments and stationery sector. Parker would give Gillette a significant market presence in a number of countries around the world where Gillette had a relatively weak position in terms of distribution and market share. The Parker acquisition would also broaden Gillette's range of writing instruments, giving it experience and proven design, manufacturing and finishing capabilities, notably in the production of mid-price range refillable writing instruments. Gillette's existing Paper Mate and Waterman product ranges were weak in this price range in the UK.

4.3. In Parker's view Gillette's offer for the company provided the previously promised opportunity for shareholders to realize their original investment. It had been agreed by investors from among senior management and the financial institutions in 1989, at the time the company was refinanced and Parker Pen Holdings established, that shareholders should be given such an opportunity in 1992 (paragraph 2.23).

The writing instruments market

4.4. Gillette considered that there was little accurate published data on the UK writing instruments market. For example, Parker and Bic, respectively the two biggest suppliers in the refillable and disposable sectors of the market, did not contribute to data published by the Writing Instruments Association. In consequence the company believed it had only limited knowledge of the UK market. Nor did Gillette consider its UK writing instruments business large enough to justify commissioning its own independent market surveys.

4.5. Gillette considered the UK writing instruments market to be very competitive in all sectors. The company told us that it encountered strong competition from other suppliers which tightly constrained its own behaviour as a supplier.

4.6. In Gillette's view the UK market was also wide open to international competition with many international companies already selling here which could readily increase their imports. Other suppliers not yet selling in the UK were also potential participants which the retail trade-described as 'powerful' by Gillette-could call upon.

4.7. On the structure of the UK market Gillette took the view that while there was clear segmentation between disposable and refillable products, with the former generally priced below £2.50, such price segmentation was somewhat arbitrary. Gillette quoted the example of one of its refillable products, a Flexgrip ball point pen, that retailed at 69p. (This particular product is sold in the UK as a disposable product. The refill, which was priced at 29p, was not available in the UK as Gillette believed it was too low priced for retailers to be willing to give it shelf space.) While refillables were in general higher priced the consumer was likely, in Gillette's view, to treat a low-priced refillable as a disposable and not bother to buy a refill for it. To that extent there was competition between disposables and lower-priced refillables and

Gillette considered that the £5 price point was a more realistic break between these two market segments, £5 also representing the lower end of the gift purchasing segment (paragraph 4.18).

4.8. Gillette considered that further segmentation of the refillables sector, between those sold from open racks and those sold under glass, was also somewhat arbitrary. It could not be based on type of packaging, as products sold in blister packs covered quite a wide price range and some blisters include gift-boxed products. If the dividing line were to be drawn on price, Gillette believed £10 would be an appropriate level, but felt that under-glass prices had been drifting up towards £20 in recent years. Gillette said that its Paper Mate products sold under glass were currently in the £10 to £35 range but these represented a very small proportion of its current business and were now being withdrawn (see paragraph 4.19).

4.9. As described in paragraphs 3.10 and 3.11, Parker had commissioned from Market Measures an independent survey of the UK writing instruments market carried out on its behalf in 1991. The company was thus able to provide the MMC with estimates of its market shares in a range of market segments categorized by price band (Tables 3.5(a) and 3.5(b)). These showed, for example, that Parker had almost three-quarters of the writing instruments market in the lowest refillable price band, £2.50 to £10.

4.10. Parker told us that in its view the UK writing instruments market had focused in the last ten years or so on five main brands, in addition to Parker, in the non-disposable (refillable) sector (Sheaffer, Montblanc, Cross, Waterman and Elysée) and three in the disposable sector (Bic, Pentel and Pilot or Scripto). Parker considered that the market had become more competitive over that period. All manufacturers were using the same basic technology and marketing techniques so that advertising now played an important part. This was particularly so for refillable products, many of which, Parker told us, were purchased as gifts.

4.11. A further factor in increasing competition in the market was, in Parker's view, what it saw as a large shift of emphasis in retail distribution from independent stationers to greater concentration of business going through multiple stationers and department store chains. Parker considered that this trend was greater in the UK than in its other markets. Parker's 50 largest customers now accounted for 67 per cent of its UK business. Similarly Parker told us that it used to have some 7,000 retail accounts about ten years ago and this had now shrunk to 3,500 plus the multiples.

4.12. Parker believed that the writing instruments market in the UK had expanded over a number of years apart from the last year or so. The market had grown quite well in the higher price ranges due, in Parker's view, to a return to the use of the fountain pen from the ball point and roller ball products. This trend had been aided by the competition from such brands as Montblanc, Sheaffer and Waterman and advertising stressing the worth of having and the pleasure of writing with a fountain pen.

4.13. On market sectors, Parker considered the retail and business gifts markets as separate businesses and operated in them with two separate sales forces. In the business gifts market the company dealt direct with larger customers and through intermediary gift houses for smaller ones. Parker told us that the business gifts market could be subdivided into corporate gifts, more expensive items given away by companies, for example to celebrate a particular occasion (such as the signing of a contract), and promotional gifts, usually cheaper items given away to create brand or company awareness. This was an important business to Parker and now accounted for 20 per cent of the company's turnover.

4.14. In the retail market Parker agreed that there was a division at about the £10 price level between cheaper refillable writing instruments openly displayed or sold from racks in blister packs and those sold under glass: but in the company's view this division was not clear-cut. Higher-priced products, occasionally up to the £20 price level, were sold from racks and items below £20 were sometimes sold under glass. Parker believed that the division was to a large extent the choice of the retailer depending on the circumstances in his store. The degree of pilferage was a factor in deciding the price range of products on open racks compared with those under glass.

4.15. Parker also considered the price borderline between disposable and refillable writing instruments to be blurred. The company quoted the example of its lowest-priced product, the Jotter ball point, which retailed at about £5. This Parker described as a good long-lasting product with refills obtainable the world over. Evidence from the number of refills Parker sold compared with sales of the Jotter suggested, however, that many people treated it as a disposable and did not bother to fit a refill. Accordingly Parker believed that there was an overlap between disposables and lower-priced refillables. It was not possible in its view to indicate a precise price level at which this competition ceased, but Parker believed it was around the £2 level.

4.16. Parker told us that it would not now contemplate entering the disposables market as this would conflict with its policy of marketing long lasting, personal products. It had been tried under the company's previous ownership in the US, a move opposed by the European side of the company. The move had been a commercial failure and one of the factors that led eventually to the buy-out of the company in 1986.

Market strategies

4.17. Gillette told us that the UK writing instruments market played a relatively small part in the company's stationery business. Strategy for this business was developed on a world-wide basis. Gillette's strategy had evolved over time from one based originally on a refillable ball pen to a fuller range of products introduced in the early 1980s including, among others, a metal roller ball pen, the 'Flexgrip', with a textured rubberized barrel for better handling and 'Dynagrip', a refillable ball pen with a gripping section.

4.18. Gillette took the view that writing instruments divided into those which met the consumer's basic need 'to put a mark on paper', which it termed the functional, low-priced end of the market, and those higher-priced products that met other consumer motivations such as the buying of writing instruments as gifts. This led Gillette in the early 1980s to develop a two-brand strategy. Under this Paper Mate was to be focused on the functional, lower-priced, mainly disposable, products and higher-priced products were to be provided under a second brand name. The Waterman business was acquired for this purpose in 1987.

4.19. Gillette told us that as a result of this strategy about 90 per cent of its Paper Mate products were currently sold in the UK at prices below £5 and about 70 per cent of Paper Mate writing instruments sales revenue came from disposables. The company intended to withdraw Paper Mate products priced above the £10 level from the UK market within the next two years.

4.20. Gillette told us that its Waterman products had a relatively small share of the total UK writing instruments market. The great bulk of its Waterman products were sold at what it termed the prestige end of the market. Gillette estimated that some 8 per cent of Waterman's writing instrument sales revenue in the UK came from products within the £2.50 to £10 price band. No disposable products were manufactured by Waterman.

4.21. Questioned on the performance of its writing instrument brands in the UK market, Gillette told us that over the past four years Paper Mate's share of the market had fallen in terms of value. But the move from refillables into disposables had increased sales in volume terms and Gillette told us that it sold more disposable stick pens in the UK-around 40 million in 1992-than in any other Gillette stationery operation in Europe. Gillette considered its major competitors in the market under the £5 price level to be Bic, followed by Pilot, Mitsubishi and Pentel.

4.22. Gillette also pointed out that its stick pen business in Europe represented 20 per cent of its stick pen sales in the US and 50 per cent of its European stick pen sales were in the UK. Almost all these stick pen sales (98 to 99 per cent) were to the commercial or office products side of the market rather than through retail outlets. Gillette estimated that 60 to 65 per cent of its UK writing instruments turnover was from commercial/office sales.

4.23. We asked Gillette why its Waterman business had incurred losses in the UK since it was acquired in 1987. Gillette said that Waterman's UK business was very small and the company's major effort since the acquisition had been directed to expanding Waterman's sales in the US where it considered the greatest potential lay. Waterman's UK turnover had grown from £1.8 to £2.8 million since 1988 and it was currently breaking even. Gillette planned to double Waterman's UK turnover over the next five years. The

main thrust of its plans for Waterman was to establish its image as an up-market, under-glass range of products.

4.24. Waterman's strategy on entry into the UK market had been to target sales on department stores and specialist pen shops. Waterman also participated in the business gifts market through a small dedicated sales team selling mostly through gift houses but also supplying some end-users direct. Gillette told us that direct supply of business gifts accounted for some 5 per cent of Waterman's total UK sales. Waterman's total business gift sales in 1992 was likely to be around 21 or 22 per cent of its UK turnover. The remainder was likely to be from sales to the retail trade as Waterman had only minute sales via wholesalers.

4.25. We questioned Parker about the reasons for its almost 75 per cent share of the £2.50 to £10 price band in the UK market (see paragraph 4.9). The company told us that at the time of the management buy-out in 1986 Parker had been positioned towards the lower-priced end of the market. This had been the result of the then Parker Pen Company pursuing volume sales with the Jotter and Vector product ranges in the late 1970s and 1980s, especially in the US. Following the buy-out Parker had decided to move the brand back up-market and that remained its current strategy.

4.26. Parker argued that its large share of the lower-priced refillables sector was not inconsistent with this strategy. It contributed valuable revenue for investment in and promotion of Parker's higher-priced products such as the relaunch in 1987 of the Duofold, a product originally produced in the 1920s. This was described to us as having been made, in Parker's view, as well and as durable as possible with a large, flexible 18-carat gold nib with a platinum point and having flow control systems ensuring that the pen did not leak in aeroplanes.

4.27. Parker attributed its large share of the £2.50 to £10 price band to a number of factors. The company told us that in its experience the UK writing instruments market favoured lower-priced products to a greater extent than other markets. Parker's share in this price band had, it told us, built up over many years. The company pointed out that it had been operating in the UK for 68 of its 100 years' existence. Progress over this period had been slow but steady and, in Parker's view, had built up strong brand awareness and a reputation for consistency in making good products and giving good service.

4.28. A further factor, Parker believed, was its introduction of blister packs for writing instruments in the UK. Parker claimed to have been the innovator in this largely as a defensive measure to overcome the use by retailers of staff who were unable to provide a personal service in giving information to customers on the available products. Such packaging, including information about the product, had in Parker's view helped to secure its large share of the lower-priced refillable writing instruments market.

Sales promotion

4.29. Gillette told us that it promoted its Paper Mate and Waterman products differently to reflect the different consumer image of the brands. Its Paper Mate retail products were mainly promoted by special price offers whereas Waterman products were promoted by permanent and special displays and by the employment of demonstrators in stores to influence buying decisions.

4.30. On the use of discounts, Gillette said that, while they were not standard, it believed most writing instruments suppliers' discounts were in a narrow band close to one another. Joint overriding discounts covering both Paper Mate and Waterman products were offered by Gillette to selected accounts, such as multiple retailers, based on turnover and potential. Gillette told us that that pressure on discounts from retailers and wholesalers was intense and its margins had been eroded over the last three to four years.

4.31. Gillette saw overriding discounts as a method of promotion that benefited the trade rather than the consumer. Promotional offers of a price cut or the offer of a free item were to some extent passed on to the consumer. Gillette told us that overriding discounts, generally negotiated at headquarters level, were, in its view, retained by the trade and not reflected in the street price. Gillette saw such discounts as an example of something it had to do in order to get its products into the shops and which it would prefer not to do. The company took the same view of the use of in-store demonstrators and the supply of shop fixtures, to promote its products.

4.32. Gillette used in-store demonstrators only for its Waterman products but did not believe that they were on the whole cost-effective. A profit and loss study by Gillette in one chain of stores last year had shown them to be losing money. Gillette told us that it had tried to withdraw demonstrators from some of the stores but had been threatened by the store with being compelled to withdraw them all together with its products. It had had to leave the demonstrators in place. Gillette had also found that sales of its products through stores that did not use in-store demonstrators but trained their own staff for pen sales had been comparable to those at stores using Gillette's demonstrators.

4.33. Gillette told us that it supplied display fixtures to stores on what was in effect a permanent free loan basis, subject to an initial order to fill the unit. Gillette preferred the units to be stocked with its products only but said that this was difficult to enforce. The company also shared its display space with other manufacturers by agreement and had even sold some of its display cabinets to another manufacturer.

4.34. Gillette had carried out one refurbishment of the pen department in a store but told us that it found this an expensive and time-consuming operation. Gillette had undertaken this after being charged for space in a number of other stores where the refitting had been carried out by Parker. Gillette had believed Parker was making a profit on these refurbishments but told us that it had found the cost of refitting much greater than it had anticipated. In its view Parker might still be using such refurbishments as a profit centre but the profit was unlikely to be as high as Gillette had originally thought.

4.35. We asked Gillette whether it considered the location of its products within a store's writing instruments department to be a particularly important factor in sales promotion. Gillette told us that it did not consider this critical, given that such departments were usually relatively small and compact areas. Gillette stressed its view that it was the retailer who decided how much space would be allocated to a particular manufacturer and its location.

4.36. In Gillette's view manufacturers of refillable writing instruments did not promote refills for their products as such. Standard refills made by other manufacturers were available for all its Paper Mate products. This was not the case for its Waterman products because, Gillette believed, their sales had not yet reached a level that would attract another manufacturer or a multiple retailer to produce or stock them. Gillette told us that it made no attempt to influence retailers not to supply alternative refills for its products. Gillette accepted that a key factor in the sale of refills was likely to be the consumer's preference for the brand made by the manufacturer of the writing instrument he or she owned.

4.37. Parker told us that it believed that its advertising, promotion and display of high-quality pens had helped the industry as a whole by creating a market for higher-priced products, especially those retailing at £100 or more, that had not previously existed. Parker's advertising strategy was to advertise its leading product, currently its Duofold range, and to concentrate about 80 per cent of its advertising budget on that product. In Parker's experience this more effectively advertised the Parker brand than advertising various specific models. Parker believed that this dissipated its message and probably served to confuse the customer.

4.38. Parker considered that competition amongst manufacturers in trade prices and discounts was intense. The manufacturers fought for visibility for the product range on hanging racks for blister-packed merchandise, on counters, under glass in showcases and in catalogues. In the more professional retailers' outlets, space was allocated according to strict criteria, not the least of which in Parker's view was the retailer's profit margin, and competing suppliers had in effect to compete for space. Parker believed that by refusing to concede to pressure from retailers for additional discount, visibility could be reduced and the range of products listed by that retailer could be cut drastically, thereby impacting on sales. The company told us of one major customer, a retailer issuing its own catalogue, who had this year reduced the range of Parker products in its catalogue when Parker refused to grant the customer extra discount.

4.39. In Parker's view discounts were used as a competitive tool and as far as it knew suppliers of writing instruments differed in their discount practices. It believed that certain of its competitors gave greater discounts than Parker was prepared to give but accepted that this could be because of its leading role in the market. Parker told us that it had to give larger discounts in world markets where it was not the leader. Some of its competitors in the UK offered more attractive terms to major stores and multiples, such as more generous payment periods or even supplying on a sale or return basis.

4.40. We enquired about Parker's use of in-store demonstrators (sometimes called consultants) to promote its sales. We were told that the company had done this for some 15 to 20 years. It had originally employed them as a defensive measure against a major competitor whose sales had increased by 20 to 25 per cent over Christmas, largely at Parker's expense, by deploying demonstrators in a key department store.

4.41. In Parker's view the use of demonstrators/consultants helped to persuade the customer to buy a Parker product. The company had spent about £400,000 on consultants in its 1991/92 financial year. While the use of consultants was not imposed on the company by retailers, Parker said that it had become part of the trading negotiations because it was something the retailers wanted. In the company's experience there could be pressure from retailers over numbers or location of consultants.

4.42. Parker believed that consultants generally paid their way but told us that it was not possible to quantify their contribution to the company's sales. Although the retail outlets covered by consultants were in Parker's view important, the company emphasized that they formed only a very small part of its total UK business.

4.43. We pointed out that on its own survey estimate some 74 per cent of Parker's UK business was in the £2.50 to £10 price band where demonstrators were not employed. In this context the expenditure of £400,000, it seemed to us, was likely to form a high proportion of the business demonstrators might generate. The company told us that this was part of its long-term strategy of moving its brand into the higher-priced end of the market.

4.44. Parker also promoted sales by offering display cases to retailers either for purchase or free on loan. We understood from Parker that most of the retailers who took them did so on loan. Parker required the retailer to use the display unit exclusively for its products but told us that it was impossible to enforce this condition completely; inevitably after a time competitors' products were found in the case. Parker had the display cases custom built to its own design and, we were told, took responsibility for cleaning and refurbishing them.

4.45. Parker told us that those manufacturers which did not supply display cases usually paid the retailer for space in one. We put it to Parker that we had received complaints about overcharging for display space in stores where Parker had been responsible for refurbishing the pen department and the belief that such refurbishments gave Parker additional influence over the allocation of space in the stores concerned. Parker maintained that the retailer was responsible for the charges made to other manufacturers and for the allocation of space in such circumstances.

4.46. Parker told us that it supplied display cases on the basis of cost recovery putting a small margin on the cost price to cover delivery and occasional breakages or extra store visits to sort out siting problems. Display cases were not regarded as a profit item by the company.

4.47. In cases where it was responsible for refurbishment of the pen department in a store, Parker said that it might indicate in discussion of the refurbishment plans those display cases it was interested in, but told us that it did not always get them. Parker believed that the bottom line for the retailer was that any space allocated had to justify itself in terms of sales.

4.48. Parker told us that its sales of refills had been maintained at a high level despite many of the relevant patents having expired. There was a multitude of other manufacturers making refills that fitted Parker products. The company did not design its refills deliberately to make it difficult to reproduce them nor did it discourage retailers from stocking or publicizing alternative refills. The same Parker refill fitted all the company's roller ball models and this was also the case with its ball pen models.

4.49. We drew Parker's attention to the suggestion made to us that many consumers were nonetheless either unaware of or reluctant to buy refills made by someone other than the producer of the original writing instrument. Parker said that it was aware of this and pointed out that one of its refills retailing at £1.65 was displayed in W H Smith alongside that company's own branded equivalent selling at around 90p. Despite this Parker told us that its product continued to sell well and it attributed this to its high quality and good record of very low incidence of faults or leaks.

Market entry

4.50. We asked both the main parties about the current situation for a manufacturer seeking to enter the UK writing instruments market.

4.51. Gillette told us that in its view the proliferation of imported writing instrument brands from a wide range of suppliers demonstrated that it was extremely easy to enter the UK market. In general, if a product was thought likely to sell well and it was being offered competitively it was likely to find a ready market in the UK. Department stores and specialist pen shops, in particular, needed to carry products from many manufacturers so that a new entrant could expect to be welcomed by these outlets if it had a suitable product at a competitive net price.

4.52. Gillette pointed out that to supply writing instruments in the UK did not depend on manufacture in the UK. Gillette drew our attention to what are known as 'designer brands' (eg Courrèges, Tiffany, Givenchy, Yves Saint Laurent, Louis Vuitton, Daniel Hechter (Boursier), Creeks, Gucci, Reden's). A great many of such products marketed in the UK were subcontracted to third party manufacturers. Many of Gillette's Paper Mate products were also made under contract as were W H Smith's own-label brands. There was an abundance of subcontract manufacturers able to manufacture writing instruments to meet a supplier's requirements. Examples of component and contract manufacturers included Kotobuki (Japan), LBC (Italy) and Honasco (Germany), and there were many others. Gillette provided the MMC with a list.

4.53. Gillette drew our attention to brand names such as Montblanc, Elysée and Lamy, which, it said, were much more prominent today at the higher-priced end of the product range than they were a decade ago. Similarly other significant brands which Gillette said had been launched (or been the subject of significant relaunch) in the UK since 1986 included Diplomat, Marksman, Senator, Tombow and Zebra. W H Smith had also launched its own-label brands-Messenger and Signature-within the last five years.

4.54. Parker said that in considering entry into the UK market it would distinguish between a manufacturer wishing to enter the market with his existing brand or with a new brand and a distributor or retailer in the UK having products supplied under his own label. In the first case-an existing manufacturer wishing to enter the market-the main needs were distribution and selling function, assuming it was not already present with other products. In Parker's view it had been shown in the last few years that such manufacturers had found a ready market through specialized distributors. Many retailers had taken such new brands as Tombow and L'Plume, offering bright, fashion designs at an attractive price. By supplying bright but functional display and offering attractive discounts, they avoided the costs of advertising and promotion. The best example, Parker told us, was that of Elysée, which arrived in the UK at the beginning of the 1980s and was now an established brand with wide distribution. Others might come and go as fashion fads, such as Naf-Naf and Chevignon, but some could and did survive.

4.55. Parker considered that with the development of the EC more manufacturers which were prominent in their home countries had started to penetrate other markets in the EC. For example, the dominant brand in Spain, Inoxcrom, had become far more active in the UK. Pelikan, a major brand in Germany, had increased the distribution of its refillable writing instruments in the UK in the last few years, as had Omas from Italy.

4.56. Access to the UK market had also, in Parker's view, been facilitated by the concentration of trade purchasers. Over half of Parker's UK sales of writing instruments were now made to only 15 trade customers.

4.57. Parker also named a number of brands that, in its view, should be considered as new entrants to the market since 1986. These included Creeks 'n Creeks (available through Boots and some accessory shops), Diplomat, Elysée, Marksman, Senator, Tombow and W H Smith's own brands, Messenger and Signature.

Effects of the proposed merger

4.58. Gillette told us that in its view the merger was not likely materially to affect competition in the UK writing instruments market. Although it (through its Paper Mate and Waterman brands) and Parker both supplied the market with writing instruments and refills, Gillette estimated that about two-thirds of Parker's sales revenue from refillables was from items with recommended retail prices between £2.50 and £10. The corresponding Waterman share was about 8 per cent of its sales revenues. The main overlap between their respective products, Gillette said, fell in a different category, namely the high-line or under-glass category, but it was the company's intention, if the merger went ahead, to continue to promote the three brands separately.

4.59. Gillette maintained that competition in the supply of products in the under-glass category would not be affected by the merger because the merger would not change the operation of what Gillette considered to be the key determinants of competition, namely:

- (a) the buying strength of the leading retailers and their reluctance to depend heavily on any particular supplier (this included their ability to develop own-label products, as W H Smith had done with its Messenger and Signature brands);
- (b) the retailers' ability to influence customers' purchases through product selection, allocation of shelf space, display and promotion;
- (c) the retailers' need to stock and display a range of brands and products;
- (d) the presence of other suppliers which already did business with the main outlets and which could readily increase the range and volume of their products for sale in the UK should retailers and wholesalers wish them to do so;
- (e) the possibility of UK wholesalers, retailers or importers turning to other overseas pen manufacturers which already produced competitive products; and
- (f) the competition writing instruments face from various kinds of merchandise that are suitable for gifts (eg watches, jewellery, fashion accessories).

4.60. Gillette also pointed out that about 70 per cent of Paper Mate's writing instruments sales revenue came from disposables and that neither Waterman nor Parker supplied disposables. While a small part of Paper Mate sales of refillables fell in the under-glass category, key determinants of competition listed in paragraph 4.59 also applied, in Gillette's view, to these products. Moreover, Gillette was in the process of discontinuing its hi-line Paper Mate products, all of which were manufactured for it by subcontractors (see paragraph 4.19).

4.61. Gillette further argued that the main overlap between Paper Mate and Parker products was in the £2.50 to £9.99 price range. Adding Waterman's limited sales to Paper Mate's in this range, Gillette estimated that its unit sales were around one-eighth those of Parker and its sales revenue an even smaller proportion. Gillette also considered that the merger would not affect the ability of third parties to make and supply refills which were compatible with the merged firm's products.

4.62. Gillette believed that the merged enterprise would not be able to use the Parker connection to require or coerce wholesalers, retailers or gift suppliers to buy and stock more of the merged firm's product at the expense of other suppliers, or to devote more or better display space to those products. To suppose otherwise, Gillette argued, was to misunderstand the strength and influence of distributors.

4.63. In Gillette's view the merged enterprise would be hard put to maintain Gillette's and Parker's current shares of sales through retail outlets because retailers (and wholesalers) tended to take steps to reduce their dependence on any one particular supplier. The merger would not in its view affect the access of other suppliers to the UK market.

4.64. Gillette expressed the hope that the merged enterprise would be able to increase its sales in the business gifts sector. Parker was strong in that sector and Gillette hoped to be able to increase sales of Waterman products in what was (and would in its view remain) a highly competitive arena. The sector was highly competitive because the specialist intermediaries were keen buyers with considerable buying power and had access to a wide range of gift products besides writing instruments.

4.65. Gillette accordingly concluded that the proposed merger with Parker was not likely to affect adversely the conditions of competition in the writing instruments and refills markets in the UK. The dynamics of competition in this market would not in its view be materially altered.

4.66. Parker told us that it believed that with so many other competitors in the market the bringing together of the Gillette and Parker brands would not be detrimental to competition in the market-place.

4.67. Parker felt, as a manufacturer of writing instruments, as with the manufacturer of any consumer product, that it was ultimately the end user who was the most important customer. Parker was not itself a retailer and to reach the end user its products had to pass to retailers direct or through wholesalers. Certain large dealers might in Parker's view feel that the combination of Waterman and Parker put too much leverage into the hands of one major supplier. Parker considered, however, that the real power in the market lay to a large extent with the retailers, many of which exercised great influence over the terms and conditions on which they were supplied and which had also been able to insist on additional support from manufacturers. Such leverage by retailers had, Parker considered, been to the detriment of manufacturers' margins without ensuing benefits flowing through to end customers.

4.68. Parker further argued that in most stores the percentage of space given to the larger brands was not in ratio to the market share they enjoyed. It was, in Parker's view, less, since even the medium-sized and smallest competitors enjoyed a visibility in excess of their importance to the stores' turnover of their products.

4.69. Parker also believed that what it saw as the current ease of entry to the UK market would be unlikely to change following the proposed acquisition. Parker maintained that new brands had currently emerged in different market channels for a variety of reasons:

- (a) Major retail chains had already introduced, and would continue to introduce, their own brands of writing instruments in order to reduce dependence on international brands and to improve margins on sales. WH Smith was a particularly strong example of this because of the large retail distribution it had at its disposal and the credibility of its name with the customer. John Menzies was also introducing its own brands although to a more limited extent.
- (b) Smaller fashion brands, such as L'Plume and Naf-Naf, were accepted by chains and independents in order to be able to offer something different, whose price could not be compared with that of a well-known national brand which might be price discounted in a major chain or discount stores.
- (c) The ease of entry into the market was in Parker's view increasing with the single market policy of the EC, and brands which had until quite recently been almost solely national (eg Omas from Italy, Pelikan from Germany and Inoxcrom from Spain) were now enjoying wider distribution in other countries, including the UK.

4.70. We put to both parties a number of concerns about the proposed acquisition which had been expressed to the MMC by interested third parties. The main broad concern was that the combined group would be able to exert significantly increased market power, to the detriment of competition, through its dominant market share. This was particularly so in the refillables market, especially in the £2.50 to £10 price band where Parker was already very strong. The combined group would also be able to offer customers the choice of two brands across the whole price range. This would put the combined group in a commanding position.

4.71. Gillette took the view that the combined group would not effect any significant change to the market. Retailers had many alternative refillable brands to choose from and they would be likely to do so as it would be contrary to their interests to let any one manufacturer seek to dominate the market. Gillette argued that there was in effect nothing the combined group would be able to do that was not already open to Parker to do without the proposed merger.

4.72. We pointed out that Gillette had given aggregated overriding discounts in respect of its Paper Mate and Waterman brands to some major retailers. Would it not be possible for such retailers to press for aggregated overriding discounts on all three Gillette brands (Paper Mate, Waterman and Parker)? Similar pressures might be expected from the group's major customers in the business gifts market. If granted, such aggregated discounts could be beyond the means of many of the combined group's competitors to match and could, in effect, serve to exclude them from some of the more important sales outlets.

4.73. Gillette argued, on the basis of the company's experience in the US, that to concede such aggregated discounts simply increased the cost of sales for all manufacturers because its competitors would follow suit. The company maintained that it had not anticipated in its plans that the proposed merger would enable it to change the market in any substantive way. Gillette accepted that the combined group might be able to secure some additional benefit that it might not at present be able to gain by offering increased overriding discounts, but argued that aggregation of overriders on its existing brands with Parker sales would run counter to its own interests. Gillette also argued that with the very low barriers to entry any action on its part on, for example, increasing prices would drive the retailer towards the many other international suppliers in the market. In Gillette's view the nature of the writing instruments market was such that it was impossible to drive people out of it by predatory actions in the UK.

4.74. Parker took the view that the merger would not enable Gillette to do anything in the market that either company could not do on its own at present, even in the £2.50 to £10 price band. The company emphasized the countervailing power of the retailers and their normal reaction to prevent any one of their suppliers becoming too strong. The company had told Gillette that in its view minimal increases in business were possible in the UK and France. The real synergies from the merger in Parker's view would come about in the Far East, Latin America and the US.

4.75. We raised with the parties the concern that the merged group would be able to make more extensive use of consultants/demonstrators and the provision of display cabinets at the expense of its competitors in the retail market.

4.76. Gillette accepted that there would be a small benefit from the merger in that the combined group's demonstrator would be able to offer Parker and Waterman brands. There would also be some benefit in greater staff cover which could be offered to retailers. Gillette emphasized that demonstrators accounted for a very small part of its business; the company estimated this at about 8 per cent of Waterman's 1991 marketing spend. Gillette reiterated that it did not choose to deploy demonstrators; the company was compelled to do so by pressure from the retailers.

4.77. Parker also accepted that there would be some benefit to the merged group in that demonstrators/consultants would be able to offer two brands; but the company pointed out that it employed only 19 full-time consultants whereas its competitors combined had three times as many. Parker, like Gillette, said that it would prefer retailers to provide trained staff to sell writing instruments rather than have to deploy its own consultants.

4.78. We put to the parties the possibility that the merged group might use its dominant position to raise prices.

4.79. Gillette reiterated that predatory actions of this kind were not its policy and would not work for the reasons it had given (see paragraph 4.73). Parker considered that any such move would be dangerous, would encounter resistance from the retailer and its customers and could end up by eroding the merged group's margins. Parker had told us of its attempt to raise the price of its Jotter range above the £5 price point (from £4.99 to £5.25). This had failed and the company had been compelled to revert to the lower price.

4.80. We raised the possibility that consumer choice might be reduced through rationalization of overlapping products by the merged group. Gillette pointed out that one reason for its proposed acquisition of Parker was that it covered the mid-price range of refillable writing instruments in which the Paper Mate and Waterman product ranges were weak in the UK (see paragraph 4.2). Parker told us that in its view the Waterman and Parker ranges had quite different design characteristics. In the company's view any attempt to rationalize by, say, moving Parker down the price range from the higher end would be a very foolish move.

4.81. On the greater resources the combined group would be able to devote to advertising, which, we had been told, its competitors would be unable to match, Gillette told us that in 1991 total UK advertising for writing instruments was estimated to be about £2 million. In that year Paper Mate did not advertise and Waterman spent some £116,000 or around 5 per cent of turnover. In 1992 the two brands together spent only some £300,000 and Gillette argued that this could not be an issue of concern to competitors. Gillette also maintained that as advertising was brand-specific the concept of aggregation was irrelevant, ie advertising Parker could not promote Paper Mate or Waterman. Parker accepted that others currently did not match its own advertising expenditure because they chose to promote their products by other means such as discounts or free product incentives. Parker believed that its competitors welcomed the company's advertising as a means of enticing consumers into pen departments.

4.82. We put to the parties the concern expressed to us that retailers' own brands might be subjected to pressure if the combined group were to offer heavy discounts to rival retailers.

4.83. Gillette argued that it had to do business with the major retailers which had developed their own brands, and that it currently competed with retailers' own brands. While what was suggested was possible for Gillette or Parker, whether with or without the proposed merger, it would be contrary to the companies' interests. Parker took the view that this was not a practical strategy given the market power of the retailers.

4.84. We also put to Parker concerns about the proposed acquisition raised with us by a wholesaler in another EC country arising from an allegation that Parker was impeding parallel imports by preventing Parker subsidiaries from supplying buyers from outside their domestic market. In this context we also asked Parker about two complaints to the EC Commission, the first concerning an export ban in an agreement between Parker and another undertaking and the second concerning a similar allegation to that outlined above. The first complaint resulted in an EC Commission decision in 1992 that the export ban contravened Article 85 of the Treaty of Rome and fining Parker 700,000 ECUs. The second complaint was rejected by the Commission.

4.85. The first EC Commission decision recorded that Parker had drawn up for its EC subsidiaries and also for its sole distributors a wide-ranging programme of compliance with EC competition law. Parker told us that all of its distributors, whether wholesalers, retailers or departments, wherever they might be in the EC were free to export or import Parker products as they wished. Parker also told us that it was appealing against the first EC Commission decision referred to above. We also understand that the undertaking concerned is appealing against the second decision.

Employment effects

4.86. Gillette told us that in the UK, it expected synergies to arise from reorganizing its existing marketing and distribution activities involving the loss of some jobs. Gillette was confident that its strengths in overseas markets where Parker was poorly represented would, in the medium to longer term, enable it to increase Parker's exports from the UK (involving the creation of about 50 new jobs at Newhaven in the next three to five years).

4.87. Parker told us that it could not usefully comment as it was not fully aware of Gillette's plans following the proposed acquisition.

Remedies

4.88. In the event that the MMC were to find that the proposed merger might be expected to operate against the public interest a number of possible remedies were put to the parties on an entirely hypothetical basis.

4.89. On the possible divestment by Gillette of its Waterman business in the UK, by way of appointing a third party distributor, the company accepted that this was possible though undesirable from Gillette's viewpoint. Parker considered that this was primarily a matter for Gillette but considered such a divestment to be impracticable.

4.90. We enquired about the possibility of Gillette withdrawing Paper Mate from the refillable writing instruments market and questioned the impact of such a move on the company given that it had already decided to withdraw Paper Mate products from certain lines over the £5 price point. Gillette agreed that this was possible but emphasized that its current overlap with Parker in refillables was minimal. Gillette's concerns with such a move were that it should be limited to products where there was overlap and that it might have longer-term implications, particularly if the market changed. The company gave as an example current environmental concerns about disposable plastic products. This might in time lead to a decline in demand for disposable writing instruments and cause their manufacturers to modify them into refillables.

4.91. On possible undertakings, Gillette indicated that it was prepared to undertake not to aggregate discounts offered to retailers on the Waterman and Parker brands. The company would also be willing to undertake to withdraw from offering assistance to retailers in the design or provision of display space in retail outlets, although it would still need to be able to pay for display space on a pro rata basis with its competitors.