

8 Suppliers

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Introduction

8.1. In this chapter we describe the main suppliers of the four reference white goods, indicating as far as possible their manufacturing sources. We also briefly identify the other suppliers defined as such for the purposes of our inquiries. These include any enterprise from which a dealer or retailer obtains or may obtain supplies. We go on to set out various practices of suppliers which are characteristic of, and important in understanding, the UK white goods business and which are not covered in Chapters 10 and 12. The products and markets have been described in Chapter 7. We conclude with a brief account of suppliers' actions to ensure that their staff comply with current competition law.

8.2. The UK white goods market is supplied mainly by large company groups of which most sell in other European countries. Concentration has been increasing as they have acquired smaller competitors. A number of small or specialized manufacturers also exist within the EU, or else are establishing themselves on its periphery to take advantage of low local labour costs. Suppliers are able to fill gaps in their product ranges by purchasing from these manufacturers. The retailers which offer own-label products also buy from them. Major US manufacturers are involved in the European market, either by direct involvement (Whirlpool), or by investment (GE). Electrolux (see paragraph 8.14) has a strong US presence. Several of the Japanese and Korean electrical firms which supply brown goods under brands familiar in the UK also have interests in white goods. At present none of them supply reference products to the UK market in any significant volume, but several suppliers have told us that they see them as a threat.

8.3. An important aspect of the white goods market is brand identity. In this chapter we indicate the links between suppliers and brands. Some brands are aimed wholly or mainly at the fitted kitchen market and in many cases are designed to be built in. We identify these as far as possible. Many of the suppliers of reference white goods also supply other products classified by the trade as white goods, such as cookers, vacuum cleaners and microwave ovens. For some, the white goods market is a small part of their corporate activity.

Major suppliers

8.4. The section which follows describes the suppliers with a market share in 1995 of more than 1 per cent in any of the reference goods. Turnover and market share figures are shown for sales at retail prices (derived from GfK data) and are consistent with Tables 7.1 to 7.4. The figures include VAT and retailers' margins; the income of the suppliers will have been correspondingly less.

8.5. Most of the suppliers are controlled by parent companies outside the UK. GDA and some smaller companies are UK-controlled or managed, and manufacture all or most of their products in this country; we include basic financial data for them. It would not be appropriate to generalize for the industry as a whole from these results.

8.6. We looked at examples of the published accounts of the UK subsidiaries of foreign suppliers and, in one case (AB Electrolux), the accounts of the parent company, and considered whether to undertake a more detailed investigation of supplier profitability. We decided that it would not assist us in our inquiries for the following reasons:

- (a) The foreign suppliers sell a range of products, including in nearly all cases some that are not the subject of our inquiries. Their statutory accounts did not distinguish between the results from reference products (individually or collectively) and from other products or from servicing. Arbitrary allocations of overheads and operating assets would be required to isolate such information.
- (b) The accounts of the UK subsidiaries do not permit the overall profitability of supplying each of the reference products to be identified because of the effects of transfer pricing and other intra-group transactions.
- (c) The published accounts of AB Electrolux give no indication of the contribution to consolidated profits of the UK market, let alone the contribution of the reference goods within that market. Emaco told us, however, that the profit contribution from the UK market was relatively lower than that from other European markets.

General Domestic Appliances Limited

8.7. GDA is jointly and equally owned by GEC registered in England and Wales and the unrelated GE incorporated in the USA. GE took up its 50 per cent holding in 1989; day-to-day management continues to be in the hands of GEC. GDA has two wholly-owned subsidiaries in the UK supplying reference goods, Hotpoint Limited (Hotpoint) and Creda Limited (Creda). Sales are invoiced through General Domestic Appliances Sales Limited, a subsidiary of GE, but no profit is taken from these transactions. Hotpoint, established in 1909, became wholly owned by GEC in 1983. GEC acquired Creda, established in 1932, from the TI Group plc in 1987.

8.8. Both Hotpoint and Creda offer all four reference white goods under those brand names. Some are also supplied under the brand names Jackson and Parnall. Both companies sell non-reference white goods, of which cookers are the most important; the brand names are Hotpoint, Creda, Jackson and Cannon. GDA has other subsidiaries which do not make or supply reference goods.

8.9. GDA is the leading supplier of reference white goods in the UK market. As a supplier (rather than as a manufacturer), its 1995 sales at retail prices and market shares by value were £199.6 million-31.8 per cent (washing machines), £40.9 million-44.1 per cent (tumble driers), £31.4 million-21.6 per cent (dishwashers) and £138.7 million-22.1 per cent (CFS equipment). As shown by the data in Chapter 7, only in dishwashers does another supplier group (Emaco) exceed GDA's market share, and even here Hotpoint outsells any other single brand. GDA's market shares have been on a downward trend, however, and uniquely among the major suppliers its sales outside its home territory- the UK-are a small proportion of the total. Including non-reference goods, 9.7 per cent of GDA's 1994/95 turnover arose from exports.

8.10. GDA told us that Hotpoint and Creda were separately managed and traded independently of each other, although they had a common servicing organization. Hotpoint has UK manufacturing plants at Peterborough, Cambridgeshire (which is the site of its head office), Kimmel Park, Clwyd, and Llandudno Junction, Gwynedd. Creda has plants at Blythe Bridge, Staffordshire (with its head office), and Yate, south Gloucestershire. The pattern of supply of the two companies for reference goods is shown in Table 8.1.

TABLE 8.1 GDA: sources of reference goods

	<i>Brand</i>	<i>Manufactured by</i>
Washing machines	Hotpoint	Hotpoint
	Creda	Hotpoint
Tumble driers	Hotpoint	Creda
	Creda	Creda
Dishwashers	Hotpoint	Hotpoint
	Creda	Creda Hotpoint Bosch (Germany) Smeg (Italy) Thomson (France)
CFS equipment	Hotpoint	Hotpoint GE (USA) Liebherr (Germany) Vestfrost (Denmark) Merloni (Italy)
	Creda	Hotpoint Ocean (Italy)

Source: MMC from company data.

8.11. GDA told us that its turnover and profits had declined in real terms since 1991 (in spite of significant savings in overheads) and showed us graphical presentations of the data for Hotpoint and Creda. The sum of the results for Hotpoint and Creda (from annual accounts) are set out in Table 8.2. Both companies sell non-reference products, mainly cookers, but the recently consolidated Cannon heating business is excluded from the Creda figures. GDA pointed out to us that its service operation accounted for [*Details omitted. See note on page iv.*] of its profits.

TABLE 8.2 **Hotpoint and Creda: trading results***

	<i>Years ended 31 March</i>						<i>£ million</i>
	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996*</i>	
Sales	451.1	456.2	435.2	480.9	498.1	472.7	
Operating profit	25.4	34.8	27.9	31.3	28.8	14.9	
							<i>per cent</i>
Operating margin	5.6	7.6	6.4	6.5	5.8	3.2	

Source: MMC from published accounts.

*Excludes business newly acquired from parent company (Cannon).

8.12. GDA told us that in September 1994 it had introduced a Hotpoint model range known as First Edition at a lower price and specification than its existing products. It had not previously catered for the growing entry-level demand otherwise supplied by secondary/tertiary brands and by retailers' own brands. Its ranges catering for other market sectors are known as Aquarius (mid-market) and Ultima (highest specification), or in the case of CFS equipment, Iced Diamond and Mistral Plus. Creda is a mid-market brand which sets out to be distinct from Hotpoint. Both Hotpoint and Creda offer products for the built-in market, but Creda is the stronger here, often selling to contractors through builders' merchants or wholesalers. Hotpoint said that it preferred to supply retailers (or their customers) direct, having five main and nine satellite distribution warehouses, but it accepted orders from wholesalers.

8.13. Hotpoint said that it was reluctant to offer exclusive models to individual retailers, but Creda did so occasionally, sometimes using its Jackson brand. Creda supplies washing machines and tumble driers to various RECs under the Electra brand.

Emaco Limited

8.14. Emaco is now the name of the company responsible for the long-established household appliance business in the UK of AB Electrolux, its ultimate parent. AB Electrolux is one of Sweden's largest companies; about half of its business is in white goods (including floor care and cookers). It is a significant supplier of components (motors and refrigerator compressors) to other white goods manufacturers. As well as owning the Electrolux brand, it has acquired the major brands Zanussi in Italy, AEG in Germany (1994), Tricity and Bendix (now a single brand) in the UK, and Frigidaire¹ in the USA, where it is the third largest supplier of white goods. Electrolux also has a 50 per cent holding but not management responsibility in Vestfrost A/S, a manufacturer of CFS products in Denmark.

¹The US Frigidaire Company was formerly known as White Consolidated Industries Inc. Frigidaire Consolidated Limited in the UK is independently owned.

8.15. Emaco is the manufacturer of almost all the products it supplies in the UK, as shown in Table 8.3. The Emaco CFS products sourced in the UK are made at an Electrolux factory at Spennymoor, County Durham.

TABLE 8.3 **Emaco: countries of manufacture for `portfolio' brand products sold in the UK**

	<i>Electrolux</i>	<i>Zanussi</i>	<i>Tricity Bendix</i>	<i>AEG</i>
Washing machines	Italy	Italy Spain	Italy Spain	Germany Italy
Tumble driers	Italy	Italy UK (Crosslee)	Italy UK (Crosslee)	Germany
Dishwashers	Italy Sweden	Italy Sweden	Italy Sweden	Germany Italy
CFS equipment	Italy UK Sweden Spain Denmark	Italy UK Sweden Spain Denmark Finland	Italy UK UK (Norfrost) Hungary	Germany Italy Denmark

Source: MMC from company data.

8.16. Emaco refers to its core businesses, Electrolux and Zanussi (both mid-price), Tricity Bendix (medium-low price) and AEG (upper mid-price), as `portfolio' brands. Each of them supplies all four reference white goods. Emaco told us that they had separate sales companies with their own marketing policies. Its 1995 sales at retail prices and market shares by value were £129.4 million-20.7 per cent (washing machines), £15.0 million-16.2 per cent (tumble driers), £40.0 million-27.6 per cent (dishwashers) and £134.1 million-21.4 per cent (CFS products). Countries of manufacture for the various products supplied in the UK are shown in Table 8.3.

8.17. In addition to the portfolio brands, Emaco supplies UK-manufactured CFS products for the Electra brand, and Hungarian CFS products both under the Osprey brand as an own-label product for NORWEB and under the Onyx brand for certain other retailers. Emaco supplies various exclusive Tricity Bendix lines to Comet. Dixons's Currys stores have taken certain exclusive Zanussi models, but these have now been superseded by products from Zanussi's standard range. AEG supplies a washing machine which is exclusive to independent dealers, including those ordering through CIH.

Candy SpA

8.18. Candy of Brughiero, Italy, is a private company supplying electrical domestic appliances. In our inquiries we took evidence only from its two UK subsidiaries, Hoover and CDA, which are described below.

Hoover Limited

8.19. Hoover is a subsidiary of Candy, the parent company of CDA (see paragraph 8.21). Candy acquired it from Maytag Corporation of the USA in 1995. Hoover, founded in 1906, has a plant in Merthyr Tydfil, South Glamorgan, manufacturing all four reference white goods and another in Cambuslang, Strathclyde, manufacturing non-reference products. These include vacuum cleaners, which in 1992 were subject to an over-subscribed free flights promotion. This eventually cost the company (then under Maytag ownership) some £48 million.

8.20. We were told that Hoover was at present run independently of CDA. For the UK market its 1995 sales at retail prices and market shares by value were £63.3 million-10.1 per cent (washing machines), £2.4 million-2.6 per cent (tumble driers) and £3.0 million-2.1 per cent (dishwashers), all of

them mid-market products of its own manufacture. It supplies virtually no CFS products. It exports a significant proportion of its output, buying in some items. It supplies no own-label products.

Candy Domestic Appliances Ltd

8.21. CDA is a wholly-owned subsidiary of Candy. CDA claimed that the group was the fourth largest white goods manufacturer in Europe. Candy entered the UK market in 1980 by acquiring from its US parent the Kelvinator business (with a CFS manufacturing plant at Bromborough, Cheshire), which had operated since 1926. From November 1980 until 1 July 1996 CDA traded as Kelco Limited.

8.22. CDA supplies all four reference white goods in the UK market under the mid-market Candy brand. CDA also supplies (or has supplied) retailer own-label white goods to Iceland under the Iceline brand, Currys (Nova Scotia brand) and some RECs (Electra brand), as well as CFS products to Comet under the Kelvinator brand (for which name CDA has rights only in the UK). An attempt to introduce the up-market Zerowatt brand of white goods into the UK was unsuccessful.

8.23. CDA's 1995 sales at retail prices and market shares by value were £21.1 million-3.4 per cent (washing machines), £4.3 million-3.0 per cent (dishwashers) and £38.6 million-6.2 per cent (CFS products). Most of its products are sourced from Candy in Italy. It sells very few tumble driers; these were sourced from Candy until August 1996 but are now made by Hoover. It purchases some CFS products from Vestfrost of Denmark and from Kelvinator of the USA.

Merloni Domestic Appliances Limited

8.24. MDA is a wholly-owned subsidiary of Merloni of Fabriano, Italy. The brands MDA supplies are Indesit (low- to mid-price), Ariston (mid- to high-price), and Scholtès (high-price). Merloni acquired Indesit in 1987. Before that it marketed only the Ariston brand. It had entered the UK market in 1979 by acquiring Colston Domestic Appliances Limited, a failed company that had introduced the dishwasher concept to the UK. Near the end of our inquiries MDA told us that it was withdrawing the Scholtès brand from the UK market.

8.25. In the UK, Indesit and Ariston offer all four reference white goods. Their washing machines are made by the parent company, tumble driers by Crosslee in the UK, dishwashers by its parent and other Italian manufacturers and CFS products by the parent company and by other manufacturers in Italy, Portugal and Turkey. Scholtès, which serves only the built-in market, does not sell tumble driers. Its products are made by a Merloni subsidiary of that name in France.

8.26. At the end of 1994 Merloni acquired a controlling interest (51.66 per cent) in another Italian white goods manufacturer, Philco Italia SpA (Philco), in which its holding had previously been an equal 50 per cent. Philco supplies white goods to Dixons and to the CIH central stock. Philco products are supplied to other retailers in the UK (on a smaller scale) through Philco GB. This company was formerly a subsidiary of the Italian Philco, but we understand that Merloni now has no direct financial interest in it. Philco GB provides after-sales service for all Philco products. MDA told us that it had no management links with Philco or Philco GB. During 1995, MDA acquired New World Holdings Limited, a UK cooker manufacturer which supplies modest quantities of built-in reference white goods.

8.27. MDA's 1995 sales at retail prices and market shares by value were £75.8 million-12.1 per cent (washing machines), £0.4 million-0.4 per cent (tumble driers), £11.0 million-7.7 per cent (dishwashers) and £15.8 million-7.7 per cent (CFS products). Philco's sales (through Philco GB and direct) were £14.5 million-2.3 per cent (washing machines), £0.5 million-0.5 per cent (tumble driers), £0.8 million-0.6 per cent (dishwashers) and £4.3 million-0.7 per cent (CFS products).

Bosch-Siemens Domestic Appliances Ltd

8.28. BSDA (registered in 1985 and based at Hayes, Middlesex) is a wholly-owned subsidiary of Bosch-Siemens of Munich, Germany, itself jointly owned by Robert Bosch GmbH and Siemens AG.

Two other German white goods manufacturers owned by Bosch-Siemens, Neff GmbH of Bretten and Gaggenau Werke GmbH of Gaggenau, have UK subsidiaries, Neff and Gaggenau (UK) Ltd (Gaggenau). BSDA told us that Bosch-Siemens had manufacturing plants in Brazil, China, Greece, Poland, Slovenia, Spain, Turkey and USA, as well as Germany.

8.29. BSDA supplies reference white goods in the UK under the brand names Bosch, Siemens and Neff. They are all imported from Bosch-Siemens and manufactured by the two parent companies. In some cases the same model is supplied under all three brand names. We were told that each had separate marketing organizations and competing sales forces, but they shared some management and support services. Another BSDA subsidiary, Appliance Care Ltd, handled all after-sales servicing for the group. All BSDA products are relatively highly priced. Neff deals almost entirely with the built-in market and does not supply tumble driers. Gaggenau, acquired in January 1995, supplies mainly high- specification cooking equipment and its sales of reference goods are very small. At present it is separately managed and sources its products from its own immediate parent company.

8.30. For BSDA (without Gaggenau), 1995 sales at retail prices and market shares by value were £24.4 million-3.9 per cent (washing machines), £1.8 million-1.9 per cent (tumble driers), £29.9 million-20.6 per cent (dishwashers) and £31.8 million-5.1 per cent (CFS products).

Lec Refrigeration plc

8.31. Lec, founded in 1936, has since 1994 been a wholly-owned subsidiary of Sime Darby Bhd, a large Malaysian conglomerate. Lec supplies only CFS products, which it manufactures at Bognor Regis, Sussex. It supplies a wide range of models, some of them exclusive to individual retailers. About one-eighth of its output is exported. In the UK its 1995 sales at retail prices and market share by value were £68.2 million-10.9 per cent.

Whirlpool (UK) Limited

8.32. Whirlpool is a wholly-owned subsidiary of Whirlpool Europe BV (WEBV) of the Netherlands. This in turn is a wholly-owned subsidiary of the Whirlpool Corporation of Michigan, USA, which, Whirlpool told us, was the world's leading manufacturer of large domestic appliances. The parent company acquired a majority interest in the white goods business of Philips in 1989,¹ taking up full ownership in 1991. In that year it also acquired from Philips the German white goods manufacturer Bauknecht Hausgeräte GmbH (Bauknecht). WEBV now manufactures white goods in France, Germany, Italy, Slovakia and Sweden. Whirlpool supplies all four reference white goods in the UK. Most of its supplies are sourced from WEBV companies although it obtains tumble driers from Crosslee and some models of washing machine from Merloni.

8.33. Whirlpool supplies the UK market under three brand names, Bauknecht at the top end of the market, Whirlpool (its main brand) at mid-range, and Ignis which is an economy range. Whirlpool also supplies dishwashers to the RECs under the Electra brand, built-in washing machines, dishwashers and CFS equipment to Ram Kitchens plc under the Spring Ram label, and built-in dishwashers and CFS products to Magnet under Magnet's own label. Whirlpool has also developed a white goods rental business in the UK in co-operation with Thorn plc. It does not, however, supply exclusive models of its own brands to individual retailers.

8.34. Whirlpool's 1995 sales at retail prices and market shares by value were £25.3 million-4.0 per cent (washing machines), £0.9 million-1.0 per cent (tumble driers), £6.0 million-4.2 per cent (dishwashers) and £20.3 million-3.2 per cent (CFS products).

Servis UK Ltd

¹Except for the UK tumble drier business which had already been acquired by Crosslee-see paragraph 8.36.

8.35. Servis of Wednesbury, West Midlands, supplies all four reference white goods. It was founded as a manufacturer in 1929 but now buys in all the products it sells. Since 1993 almost all of its reference white domestic electrical goods supplies have come from AMS of Fabriano, Italy.¹ A small number of tumble driers have been purchased from Crosslee (see paragraph 8.37) and a very small number of dishwashers from Elica, an Italian company. Most of the reference goods it supplies are marketed under the old established Servis brand name, but it also supplies various own-label products. For the Servis brand, its 1995 sales at retail prices and market shares by value were £22.0 million-3.5 per cent (washing machines), £0.8 million-0.8 per cent (tumble driers), £3.9 million-2.7 per cent (dishwashers) and £10.8 million-1.7 per cent (CFS products).

Frigidaire Consolidated Limited

8.36. Frigidaire of Castleford, West Yorkshire, was established in 1982 as a buy-out from a US parent company. It supplies budget-priced CFS products to the UK market under the Frigidaire brand; its present use of the name is under licence from Electrolux. Apart from some chest freezers obtained from Norfrost (see paragraph 8.43), its supplies are sourced from outside the UK (Ireland, Italy, Hungary, Slovenia and the USA). Frigidaire also markets a small number of imported washing machines and tumble driers (800 units in 1994). It does not supply any own-label models. The retail value and market share of the CFS products it supplied in the UK in 1995 was £12.1 million-3.4 per cent. Its 1994 profit was £0.48 million on turnover of £15.2 million.

Crosslee plc

8.37. Crosslee of Halifax, West Yorkshire, is a manufacturer of tumble driers, and a supplier to the UK market under its White Knight brand. It was formed in 1986 following a management buy-out of the UK tumble drier facilities of Philips (which later sold its other UK white goods interests to Whirlpool). In addition to direct sales of its White Knight brand, Crosslee supplies tumble driers to Emaco (under the Zanussi and Tricity Bendix brands), MDA (Indesit and Ariston brands), Whirlpool, Candy and Servis, and a Thor brand which is sold by an independent distributor of that name in Northern Ireland. It exports 60 to 70 per cent of its output. Crosslee also supplies a very small number of washing machines and dishwashers in the UK under its White Knight brand; these are imported from Spain. Its White Knight products are sold mainly to multiples. UK sales at retail value and market share by value of White Knight tumble driers in 1995 were £21.0 million-22.7 per cent. Of this, 40 per cent was through Dixons, 20 per cent through mail order and none through Comet. Crosslee also manufactures barbecues, partly to offset the seasonality of tumble driers. In line with its results in earlier years, Crosslee's 1994/95 profit (on all its products) was £6.4 million on turnover of £54.8 million, of which £31.4 million was from exports.

Beko (UK) Ltd

8.38. Beko of Watford, Hertfordshire, is a wholly-owned subsidiary of Koç of Turkey, whose subsidiary Arçelik AS manufactures CFS products. Beko entered the UK market for CFS products in 1991. Its 1995 sales at retail prices and market share by value of CFS products was £19.8 million-3.2 per cent. As well as selling direct it supplies Iceland under the Iceline own-label brand.

Miele Company Limited

8.39. Miele of Abingdon, Oxfordshire, registered in 1964, is a subsidiary of Imanto AG of Switzerland, which also owns Miele & Cie AG & Co, a manufacturer and supplier in Germany. Miele markets all four reference white goods in both free-standing and built-in versions under the high-priced Miele brand; an associate company Imperial supplies dishwashers and CFS products in built-in form only. Most lines are supplied by Miele's German sister company, but CFS products are supplied from the

¹This firm is run by the brother of the founder of the Merloni business mentioned above, but we were told that the two companies were corporately independent of each other. See paragraph 8.45.

factories in Germany and Austria of Liebherr Export AG, Switzerland.¹ Its 1995 sales at retail prices and market shares by value were £8.8 million-1.4 per cent (washing machines), £1.8 million-1.9 per cent (tumble driers), £4.2 million-2.9 per cent (dishwashers) and £1.5 million-0.2 per cent (CFS products).

Tableside Sales & Marketing Ltd

8.40. For most of the period of our inquiries, TSM was an independent importer of reference white goods supplied under the Ocean brand. Its 1995 sales at retail value and market shares were £10.7 million-1.7 per cent for CFS products, its market share for each of the other reference white goods being under 0.5 per cent.

8.41. Ocean brand products are made in Italy by Ocean SpA and in other Groupe Brandt factories (see below) in France and Germany. Ocean SpA is a subsidiary of ElFi Elettrofinanziaria SpA (ElFi), an Italian company whose operations are managed by a French subsidiary. ElFi uses the trading name (not yet incorporated) of Groupe Brandt. Within the same group, De Dietrich Limited is the UK subsidiary of De Dietrich SA, a French manufacturer of high-priced white goods for the built-in market. Blomberg AG is a German subsidiary supplying reference white goods (in the UK) to Comet only, under the own-label Blomberg brand. Groupe Brandt also controls a number of other brands with a negligible presence in the UK. Its largest component is a former subsidiary of the French Thomson group, which has a turnover for electrical appliances in France comparable with that of GDA in the UK.

8.42. Near the end of our inquiries TSM was placed in administration. We were told that De Dietrich Limited was to be renamed Groupe Brandt (UK) Limited with responsibility for all Groupe Brandt's interests in Great Britain (but not Ireland).

Norfrost Limited

8.43. Norfrost of Thurso, Highland, was set up in 1987 to manufacture CFS equipment. Much of its output of reference CFS products goes to the own-label trade, but its 1995 direct sales at retail prices and market share were £8.5 million-1.4 per cent. Its 1993/94 profit was £3.9 million on turnover of £28.8 million. We understand that it intends to manufacture tumble driers.

Other suppliers

8.44. The remaining companies which supplied reference white goods during at least part of our inquiries fall into two categories. First, there are the smaller manufacturers and importers with UK market shares of less than 1 per cent in any of the reference white goods, together with overseas suppliers who sell direct to dealers in the UK. Secondly, there are wholesalers and retailer buying groups, both of which take title to goods they supply and are hence in the terms of our inquiries suppliers of reference white goods.

Manufacturers and importers

8.45. We list in paragraph 10 of Appendix 6.1 the 14 suppliers we named as being parties to one or more of the complex monopoly situations we provisionally identified in our inquiries. They are all referred to in paragraphs 8.7 to 8.39. Paragraph 11 of Appendix 6.1 identifies a further 25 suppliers having a UK office or distributor to which we could communicate our findings. Two of these are described in paragraphs 8.40 to 8.42. A further supplier, Thor Electrical Limited (Thor), purchases reference goods directly from a range of manufacturers for sale to dealers in Northern Ireland, in many cases under its own Thor brand. It estimated the retail value of its sales of all reference white goods in 1995 to be £1.8 million.

¹CFS products under the Liebherr brand are imported into the UK by a distributor, Coolelectric Ltd. See also Table 8.1.

8.46. In some cases UK dealers purchase directly from overseas suppliers or manufacturers which have no UK representation. One supplier trading in this way is Antonio Merloni SpA (which we refer to as AMS). As mentioned in the footnote to paragraph 8.35, it is corporately unconnected with MDA or with its parent company Merloni Elettrodomestici SpA (which we refer to as Merloni). AMS specializes in own-label products. It supplies all four reference white goods to RECs under the Electra brand and is also the source of most of the products supplied in the UK by Servis.

Wholesalers

8.47. For the purposes of our inquiries a wholesaler is a person, other than a manufacturer or importer, who buys reference white goods to hold in stock in the expectation that in the ordinary course of business he will be able to sell them to retailers or other wholesalers of those goods. Some wholesalers, particularly in Northern Ireland, may be classed as distributors, since they have exclusive rights to certain brands in a given territory. Thor, mentioned in paragraph 8.45, is not classed as a wholesaler, since it is not a channel for the brands of other suppliers.

8.48. Except in Northern Ireland most suppliers of reference white goods deliver directly to their retailers (or sometimes to final customers) rather than through wholesalers. A few suppliers use wholesalers as distributors to supplement their direct supply systems, or to cater for small retailers whose volume does not justify direct supply.

8.49. We identified nine wholesalers who sold reference white goods worth £0.5 million or more at trade prices in 1995 or their most recent financial year. They are listed in Table 8.4. One of these, Bridisco, acquired several smaller wholesalers during the course of our inquiries. We believe that there are many more wholesalers, perhaps over 100, supplying lesser amounts.

TABLE 8.4 **Principal UK wholesalers of reference white goods**

<i>Wholesaler</i>	<i>Reference goods turnover (latest 12-month period) £m</i>	<i>Reference goods supplied</i>	<i>Number of brands of reference goods supplied</i>
Bridisco Ltd	10.4	All	10
Swift Electrical Wholesalers Ltd	6.7	All	11
Owenmore Distributors*	4.3	All	3
Portway Domestic Appliances Ltd	3.4	All	23
Stearn Electric Co Ltd	2.5	All	5
Harris & Russell Ltd	1.3	All	1
Newey & Eyre Ltd	1.2	All	5
Inman & Co (Electrical) Ltd	1.0	All	7
V Leonard & Co Ltd*	0.6	All	#

Source: MMC from company data.

*Located in Northern Ireland.

#Supplies a range of own-label products imported from various manufacturers not represented in the UK under its brand name Lendi.

8.50. The supply chain for white goods to be incorporated in fitted kitchens is more complex and involves stockists and wholesalers of various kinds, depending on whether the products are for newly-built homes, kitchens fitted out by building contractors (or others) in existing homes, or kitchens supplied as part of a package by kitchen specialists. As well as specialist kitchen wholesalers and manufacturers, the market is served by general electric wholesalers, builders merchants and DIY multiples. Some traders referring to themselves as kitchen specialists are distributors rather than installers themselves.

Retailer buying groups

Combined Independents (Holdings) Ltd

8.51. CIH is a private limited company, wholly owned by 21 local groups of electrical goods retailers that are its members.

8.52. CIH's function is to act as a buying group on behalf of about 800 small or medium-sized retailers who are themselves members of the local groups. CIH uses their collective buying power to obtain better terms from suppliers of electrical consumer goods of all kinds than the retailers could secure individually. Its total reference white goods turnover in 1995 was about £83 million, of which about £37 million was in washing machines, £6 million in tumble driers, £8 million in dishwashers and £32 million in CFS products.

8.53. For most of its white goods business (80 per cent of turnover in 1995), CIH facilitates and (subject to certain limits) guarantees payment to suppliers for orders placed on them by individual retailers: the retailer orders direct from the supplier, using CIH headed paper, and the supplier delivers the order direct to the retailer. CIH keeps a record of all such transactions and settles monthly with each supplier, billing individual retailers for the goods they have received. CIH takes title to the goods ordered but it does not handle them physically.

8.54. For the rest of the business (20 per cent of turnover), CIH buys in bulk from suppliers and resells to individual retailers. For this operation, called 'central stock', CIH takes title and physical possession of the goods ordered and is responsible for distributing them to retailers.

8.55. Because CIH takes title to reference white goods as described in the preceding paragraphs and passes this to retailers it is a supplier within the terms of our inquiries.

8.56. For all of the reference white goods that it supplies CIH either passes on RRP's advised by the manufacturers or sets a guide RRP. In addition, it will at times promote products (either available direct from suppliers or from its central stock) at reduced prices. CIH is a member of Euronics, a Europe-wide buying group, which is itself able to negotiate discounts or promotional offers with suppliers which are available to all its members. CIH retailers may use the Euronics brand name for advertising and display purposes (including the promotion of CIH's own prices).

8.57. In 1995 five of the local groups that are shareholders of CIH purchased goods on behalf of their members. The groups concerned are Birmingham Combined Independents; CITER (Wales & West); CI(CNS) covering Cambridgeshire, Norfolk and Suffolk; CI North and CIR(NI). Some of these local groups take title to the goods they purchase for their members and so are suppliers within the terms of our inquiries.

8.58. The remaining retailer buying groups we have identified do not take title to the goods purchased by their members, so that we do not regard them as suppliers. They are described in Chapter 9.

Trade associations

8.59. Nearly all suppliers are members of the Association of Manufacturers of Domestic Appliances (AMDEA). It performs the normal representational and promotional functions of a trade association, including the co-ordination of technical standards. AMDEA's views are summarized in Chapter 15.

Non-price competition

8.60. The suppliers and their customers told us of a number of practices common in the trade which suppliers use to encourage retailers to stock and sell their products and consumers to buy them. These may best be summarized under the heading non-price competition. They are distinct from the practices in respect of prices described in Chapter 10 and of distribution in Chapter 12.

Product ranges

8.61. Most suppliers offer large ranges of products. As well as providing for various characteristics and quality levels, these may enable a supplier to secure more display space in retail premises; they may also give retailers the opportunity to offer items not stocked by competitors. In the case of CFS products, there is a wide variety of possible functions and configurations. The numbers of models for the principal brands in early 1995 were as shown in Table 8.5. It excludes models designed to be built in to fitted kitchens.

TABLE 8.5 Numbers of models in 1995 price lists

<i>Brand</i>	<i>Washing machines</i>	<i>Tumble driers</i>	<i>Dishwashers</i>	<i>CFS products</i>
Hotpoint	15	7	8	30
Creda	6	6	3	9
Zanussi	16	6	7	33
AEG	10	6	13	34
Tricity Bendix	3	3	2	9
Electrolux	5	2	2	28
Candy	11	5	-	21
Hoover	20	8	3	-
Indesit	15	1	6	12
Ariston	13	1	5	24
Bosch	10	2	13	35
Siemens	8	2	5	26
Lec	-	-	-	12
Whirlpool	8	4	5	17
Bauknecht	4	2	3	9
Ignis	2	-	-	5
Servis	12	2	4	8
Frigidaire	-	-	-	24
White Knight	1	10	1	-
Beko	-	-	-	16
Miele	9	7	13	15
Norfrost	-	-	-	3

Source: MMC from company price lists.

8.62. The above figures greatly understate the numbers of different models which consumers might have found and been able to buy in retail outlets. They do not include, for example, models under suppliers' brand names which are exclusive to an individual retailer, retailers' own-label products, products of the many minor suppliers, and obsolescent or discontinued models which were still in the supply chain. GfK has provided figures for the number of different models of which sales were recorded during a five-week survey beginning in October 1996, which are shown in Table 8.6. They are discussed in more detail in Chapter 9.

TABLE 8.6 Numbers of models sold at retail in October 1996

<i>Reference goods</i>	<i>Number of models sold</i>	<i>Number which were exclusive or own-label</i>
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Washing machines	368	97 (19%)
Tumble driers	157	39 (25%)
Dishwashers	233	47 (20%)
CFS products	645	190 (29%)

Source: GfK.

Advertising and promotion

8.63. Suppliers of white goods advertise their products, notably on television and in newspaper supplements and consumer magazines, mainly to promote their brand images and the general features of their products. During the course of our inquiries we saw very few advertisements for reference white goods by suppliers which referred to prices. The information on advertising expenditure available to us is shown in Tables 8.7 and 8.8. The first of these covers published data for a mix of household durable suppliers and brands, ranked by estimated expenditure at rate card values in 1995. It may cover also the promotion of non-reference goods. The second table contains actual expenditure data provided by suppliers themselves. We have not been able to identify elements of the expenditure dedicated to any particular one of the reference goods.¹

TABLE 8.7 UK advertising expenditure by suppliers of household durables, 1993 to 1995

	<i>£ million</i>					
	<i>Rank*</i>			<i>Total expenditure#</i>		
	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>
Hotpoint	12	1	1	0.7	2.3	1.9
Candy	3	3	2	1.6	1.7	1.9
Bosch	-	-	3	-	-	1.8
Hoover	-	-	5	-	-	1.1
Merloni	2	8	6	1.7	0.9	1.0
AEG	14	5	7	0.5	1.4	1.0
Zanussi	1	7	8	1.8	1.0	1.0
Creda	-	-	9	-	-	0.9
Whirlpool	7	9	-	0.9	0.9	-

Source: *Marketing Week* from Register-MEAL data.

*Out of UK suppliers of household durables. Baxi Partnership (gas heaters) held fourth place in 1995.
#At rate card values.

TABLE 8.8 Media advertising for white goods brands

	<i>£'000</i>		
	<i>1993</i>	<i>1994</i>	<i>1995</i>
<i>Television</i>			
Hotpoint*		611	609
Creda*		211	-
Zanussi	-	850	850
AEG	865	485	204
Electrolux	14	-	-
Hoover	350	-	-
Whirlpool	1,130	596	500
Servis	-	136	-
<i>Press</i>			
Hotpoint*		185	963
Creda*		425	441
Zanussi	1,130	-	-
Tricity Bendix	88	-	-
AEG	100	280	402

¹Apart from Beko, which supplies only CFS products.

Electrolux	1	143	3
Hoover	-	200	1,500
Bosch	88	105	340
Whirlpool	50	-	-
Servis	76	284	206
Beko	151	147	-
Miele	79	274	168

Source: MMC from company data.

*Figures for 1993/94 and 1994/95.

8.64. As shown in Chapter 9, retailers spend an order of magnitude more on advertising and promotion than suppliers. However, suppliers generally provide financial support for advertising and promotion (A&P) by retailers, often expressed as additional percentage margins and frequently exceeding substantially in value all other forms of promotional expenditure by the suppliers themselves. For example, in 1994/95 GDA's Hotpoint and Creda brands spent £16.2 million on A&P allowances to dealers (3.9 per cent of sales at retail prices), out of total promotional expenditure of £18.7 million. Bosch, at the other end of the scale, in 1995 spent £0.20 million on allowances to dealers (0.2 per cent of sales) out of £0.38 million promotional expenditure. Suppliers were not able to give us fully consistent information; some additional detail is shown in Chapter 10 (Table 10.8).

8.65. Given that most advertisements by retailers are not exclusive to a single brand, suppliers often (but not always) require evidence that advertising expenditure they have supported has been relevantly deployed.

Other promotional offers

8.66. Suppliers at times offer or finance various forms of gift with purchase, which may or may not be other products from the range they supply. Most suppliers said that they gave no direct financial support to retailers offering interest-free credit, but suggested that retailers might be able to finance it from A&P allowances. Whirlpool on occasions backed existing retailer interest-free credit promotions by financing the extension of a six-month interest-free period to 12 or 18 months.

SPIVS and demonstrators

8.67. Most white goods suppliers at times offer SPIVS to retailer staff to promote their products. These may take the form of cash payments for each item sold, but they frequently consist of gift vouchers or point scores towards rewards such as foreign travel. Payment of the incentives is usually made through the employer and always with its consent, so that income tax can be accounted for. Most suppliers deprecated the practice but said that they would be at a disadvantage to their competitors if they gave up unilaterally. Certain large retailers, including JLP and Dixons, do not let their staff accept SPIVS; some suppliers saw them as most suitable for motivating smaller retailers and rental outlets, and also for builders' merchants where the purchaser was not the final consumer.

8.68. Suppliers also employ demonstrators whom they place in certain outlets such as department stores. Their main purpose is to raise awareness of the features and benefits of the supplier's models among the public and the sales staff, but they also become involved in selling. Frequently they are not identified as being the employee of a particular supplier. The larger suppliers told us that in recent years they had reduced the numbers from (in one case) over 100 to very few. Some retailers will not accept them. One supplier told us that retailers had used the availability of demonstrators to economize on their own staff, obliging the demonstrator to sell other suppliers' products.

Retailer training

8.69. Suppliers told us that they attached importance to the training of retailer staff in the characteristics of their products. This training may be carried out by demonstrators where they are still

employed, but otherwise it is one of the tasks of sales representatives. The larger suppliers offer training courses on their own premises. Some suppliers make a charge for this, or require the retailer to meet part of the cost by financing price promotions on the products. The major suppliers also offer telephone help lines open to both retailers and consumers.

Extended warranties

8.70. Nearly all suppliers offer their own extended warranties, usually externally insured, to customers who return a guarantee card and have not taken out warranties from the retailer. The prices are generally but not in all cases cheaper than those charged by retailers. In some cases the offer is for year by year rolled-over warranties. Whirlpool offers instead a ten-year parts-only warranty. Suppliers do not normally advertise the availability of their warranties before the goods are purchased, but at times they may contribute to the finance of free or promotionally-financed extended warranties offered by retailers.

Services provided by suppliers

8.71. All suppliers deliver to retailers, either with their own transport or contracted out. In most cases no specific charge is made, but we were told that the nature of the service required was often taken into account in negotiating retailer margins. Retailers may get better terms by accepting container loads. In some cases deliveries are made to customers' homes, either as part of the deal with the retailer or for a specific charge. Suppliers may undertake installation or remove old appliances; practices vary.

8.72. Suppliers also expect to provide after-sales service, again sometimes contracted out. This consists of both work under warranty and repairs at the customer's expense. Some retailers undertake the work themselves, and there is a large population of independent service businesses. We understand (from GDA) that servicing outside the manufacturer's warranty period can be profitable.

Compliance

8.73. Some suppliers told us of their arrangements for securing compliance with competition and consumer protection law on the part of their staff. GDA showed us a Hotpoint corporate policy statement on business practices. Compliance was reviewed annually in the presence of the GDA Managing Director. Creda and GDA's other subsidiaries had similar arrangements. Staff had access to a non-executive director on a confidential basis if they had legal or ethical grounds for concern. Whirlpool showed us its guide to EC competition law together with instructions to staff on how to avoid violations of EC and national law. Emaco said that compliance should form an essential part of the training of new sales staff. During our inquiries it drafted formal guidelines for sales staff which covered the requirements of the RPA and the key features of EC competition law.