



**The Gillette Company
and
Parker Pen Holdings Limited**

A report on the merger situation



MONOPOLIES AND MERGERS COMMISSION

The Gillette Company and Parker Pen Holdings Limited

A report on the merger situation

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Trade and Industry by Command of Her Majesty
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13 January 1993**

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¹These members formed the group which was responsible for this report under the chairmanship of Sir Sydney Lipworth.

Note by the Department of Trade and Industry

In accordance with section 83(3) and (3A) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest, or which he considers would not be in the public interest to disclose and which, in his opinion, would seriously and prejudicially affect certain interests. The omission is indicated by a note in the text.

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1 Summary

1.1. On 5 October 1992 we were asked to examine the proposed acquisition of Parker Pen Holdings Limited (Parker) by The Gillette Company (Gillette) (see Appendix 1.1). Parker is a major manufacturer of writing instruments (ball point, roller ball and fountain pens and mechanical pencils) which is its sole business. Gillette has several types of business, including the supply of writing instruments under two well-known brands, Paper Mate and Waterman.

1.2. There are no reliable statistics for the UK writing instruments market but it is estimated to total about £225 million at retail prices, divided almost equally between refillable and disposable instruments. Refillables range in price from about £1 to £200 or more and disposable writing instruments from a few pence to a few pounds. Although there is some competition for the lower-priced refillables from the better quality disposables, most evidence we received suggested that refillables form a largely separate market.

1.3. Parker and Waterman supply only refillables; Paper Mate supplies mainly disposables but also some lower-priced refillables. We have therefore examined the effects of the proposed merger primarily on the UK market for refillables. Market research estimates suggest that Parker already supplies about half of total UK sales of refillables by value and that Waterman and Paper Mate together would add some 7 per cent to Parker's share.

1.4. There are, however, at least 40 brands of refillables supplied to the UK market, with a wide choice of style and finish at all price levels. Market shares are not static. Although more expensive pens have better quality nibs, finishes and mechanisms, there is no great technical difference between pens, and production processes are comparatively simple. There have been a number of recent entrants and some multiple retailers have successfully introduced own-brand pens.

1.5. Writing instruments are sold through three trade channels: the business use, business gifts and retail markets. In the business use market, disposables predominate and refillables play only a small part. Paper Mate is a substantial supplier, but Parker and Waterman sell little into this market. Sales are made through wholesalers, who expressed little concern, and competition, based mainly on price, appears to be strong. We do not think that the proposed merger would adversely affect price or choice in this market.

1.6. The business gifts market is large and competitive. It covers not only writing instruments but a wide range of other goods. Parker has developed the market for refillables for promotional use, overprinted with the buyer's logo, in which it has a substantial share of sales, particularly at the lower price levels. While brands are important, price is a significant factor at all levels and particularly important in selling promotional pens, where refillables are in competition with disposables as well as other products. Gift houses expressed no concern about the proposed merger. We do not think that it would adversely affect competition, price or choice.

1.7. In the retail market writing instruments are sold through a wide range of outlets, and by two main methods, self-service and from under glass by assistants at pen counters. In the self-service, mainly blister pack, sector Parker is particularly strong with an estimated two-thirds of retail sales of those refillables priced between £2.50 and £10; this segment accounts for less than one-quarter of the total retail market for refillables. Market shares have not remained static and Parker's present position has been only recently achieved. There are about 30 existing suppliers in this sector, including retailers' own brands, and a range of potential new entrants, some already established in other sectors of the market. Competition from a wide range of attractive disposables would also inhibit any attempt by the merged group to exploit its market position.

1.8. In the under-glass sector there are again many suppliers, including both long-established firms and recent entrants. In this and the self-service sector the larger retailers exercise considerable power, reflected in the discounts they receive and in the range of promotional support they can secure from suppliers, including special offers and the provision of consultants and display counters. Any attempt by a merged company to exploit its market position would be held in check by the bargaining strength of retailers and the existence of both actual and potential competitors to which they could turn. Overall we do not consider that the proposed merger would adversely affect competition, price or choice in the retail market.

1.9. We conclude that the proposed merger may not be expected to operate against the public interest.

2 The companies involved in the merger

The Gillette Company

History

2.1. Gillette was established in 1901 by Mr King Gillette in Boston, Massachusetts, and commenced commercial production of the patented 'Gillette safety razor' some two years later. The company headquarters has remained in Boston.

2.2. Blades and razors have been Gillette's core product line but in 1955 the company entered the writing instruments business by acquiring the Paper Mate companies of the USA and Puerto Rico.

2.3. Other product areas in which Gillette operates are:

(a) toiletries and cosmetics;

(b) consumer electrical goods under the Braun name, such as electric shavers and household appliances; and

(c) oral care products under the Oral-B brand name.

2.4. Gillette acquired another interest in the writing instruments business in 1970 when it bought the luxury goods and pens manufacturer S T Dupont. It sold this company in 1986 and in 1987 acquired Waterman SA based in France.

Present activities

2.5. Gillette started marketing its Paper Mate writing instrument products in the UK in 1966. Paper Mate is now primarily a supplier of disposable writing instruments and its refillable products are at the low-priced end of the market. These include ball point, roller ball and fountain pens as well as mechanical pencils, refills and inks with the emphasis very much on ball points. The bulk of Gillette's Waterman products in the UK are sold at the higher-priced end of the market.

2.6. Neither Paper Mate nor Waterman products are manufactured here. Paper Mate products are imported from Gillette manufacturing facilities in the USA, Central and South America and Malaysia and from contract manufacturers located principally in Japan, Germany and Italy. Waterman products are imported from the company's plants at Nantes and Chamonix in France. Paper Mate and Waterman products are marketed and distributed in the UK from Gillette facilities at Isleworth and Reading.

Gillette's organizational structure

2.7. A chart of Gillette's world-wide organizational structure, including its Stationery Products Group, is at Appendix 2.1.

2.8. Gillette's Stationery Products Group is responsible for the design, manufacture, procurement and marketing of writing instruments and refills, as well as of correction fluids (under the Liquid Paper name).

Gillette's corporate structure

2.9. A chart showing Gillette's UK corporate structure is at Appendix 2.2. It will be seen that Gillette UK Ltd (Gillette UK), responsible for Gillette's writing instruments business in the UK including Waterman (see paragraph 2.13), is a subsidiary of the parent Gillette Company of Boston which made the offer to acquire Parker Pen Holdings Limited, the subject of this inquiry.

Employment

2.10. Gillette has some 2,800 employees in its Stationery Products Group of whom about 75 are employed in the UK.

Waterman Pens (UK) Limited and Gillette UK Ltd

2.11. Gillette acquired a majority (95 per cent) shareholding in Waterman SA, the parent company of Waterman Pens (UK) Limited (Waterman Pens (UK)) in 1987. One of the vendors was Parker Pen Limited which sold to Gillette its 12 per cent holding in the share capital of Waterman SA. The business of Waterman Pens in the UK is to import writing instruments from its parent and distribute them in the UK.

2.12. Between 1987 and 30 November 1991, the Waterman business in the UK was conducted by Waterman Pens (UK). However, Waterman Pens (UK) traded at a loss and was supported financially by Waterman SA. The report of the auditors of Waterman Pens (UK) for the year ended 30 November 1990 was qualified (as it had been in previous years since the acquisition of Waterman SA by Gillette), stating that: 'The continuation of the company's activities is dependent on the support of Waterman SA. The financial statements have been drawn up on a going concern basis which assumes that this support will continue.'

2.13. On the close of business at 30 November 1991 the business of Waterman Pens (UK) was transferred, as part of a restructuring activity, to Gillette UK. From that date the Waterman Pens business has been conducted, together with Paper Mate pens and Liquid Paper products (correcting fluids), as part of the Stationery Products Division of Gillette UK.

Financial information on Gillette

2.14. Details of the profit and loss accounts, balance sheets and sources and application of funds of Gillette UK (which include the businesses of razors, razor blades and toiletries as well as writing instruments) are shown in Appendices 2.3, 2.4 and 2.5.

Waterman Pens (UK) Limited

2.15. The trading results of Waterman Pens (UK) for the four accounting periods ended 30 November 1991 are summarized in Table 2.1.

TABLE 2.1 Waterman Pens (UK): summary of trading results for the four accounting periods to 30 November 1991

	<i>£ million</i>			
	<i>Year ended 30.9.88</i>	<i>14 mths ended 30.11.89</i>	<i>Year ended 30.11.90</i>	<i>Year ended 30.11.91</i>
Turnover	1.3	2.3	2.5	2.4
Gross profit	0.5	1.1	1.1	1.1
Operating profit/(loss)	(0.1)	(0.2)	(0.1)	(0.2)
				<i>per cent</i>
<i>Ratios*</i>				
Gross margin	42.5	48.7	44.8	47.4
Net margin	(4.5)	(8.9)	(5.6)	(8.3)

Source: Gillette UK.

*Calculated on unrounded figures.

2.16. The profit and loss accounts of Waterman Pens (UK) are shown in more detail in Appendix 2.6. Waterman Pens (UK)'s turnover and operating loss in the year to 30 November 1991 were respectively £2.4 million and £0.2 million. The corresponding figures for Parker Pen UK Limited (Parker Pen UK) in its year to 28 February 1992, shown in Table 2.6, were turnover of £71.6 million and operating profit of £13.8 million.

2.17. The balance sheets of Waterman Pens (UK) for the four years to 30 November 1991 are shown in Appendix 2.7. Over this period, Waterman Pens (UK) had negative capital employed from 1989 and negative net equity from 1988. The company was dependent on Waterman SA for financial support. Waterman Pens (UK) was financed primarily by trade credit and loans from Waterman SA; at 30 November 1991, these amounted respectively to £2.3 million and £0.3 million.

Parker Pen Holdings Limited

History

2.18. The original Parker business was founded in Wisconsin by George Parker in 1888. He patented his first fountain pen design in 1889 and in 1894 patented the Lucky Curve ink-feed system which became the foundation for The Parker Pen Company's principal products into the 1920s. The Parker Pen Company was incorporated in 1892 and by the end of the First World War had established a leading position in the North American market, with sales of over US\$1 million. It had also begun to market its products internationally. Independent distributors were appointed overseas from 1903 and the first marketing subsidiaries were established in Canada and the UK in the early 1920s. Parker products are currently sold through a network of marketing subsidiaries and independent distributors in some 120 countries in Europe, North, Central and South America, Africa, Australia and the Far East.

2.19. Parker's first factory and offices were built at Janesville, Wisconsin, in 1919. Manufacturing operations in the UK began at Newhaven in 1947 and at Meru in France in 1967. Satellite assembly facilities have also been established in Colombia, Argentina and South Africa.

Background to the proposed merger

2.20. In March 1976 The Parker Pen Company acquired a majority interest in Manpower Inc (Manpower), a company providing temporary help services to business, professional, government and service organizations. Manpower was run as an autonomous division alongside the writing instrument division within The Parker Pen Company. Manpower grew rapidly and eventually became the

predominant division within The Parker Pen Company. In 1985, following a period of under-performance by the writing instrument division, the senior management of The Parker Pen Company decided to withdraw from the writing instruments business by disposing of the division.

2.21. In January 1986 the writing instrument division of The Parker Pen Company was acquired by Parker Pen Limited (Parker Pen), a company owned by a consortium of management and other investors. The investing consortium comprised members of Parker's management team, Schroder Ventures, Chemical Equity Associates, Bankers Trust International Limited, Electra Investment Trust PLC and PKR Associates representing various interests of the Parker family.

2.22. Subsequently, in 1987 and 1988, a proposed market flotation of Parker Pen was considered but not proceeded with. At an extraordinary general meeting of the company held on 6 May 1988, a resolution was passed to change the name and status of the company to a public limited company. However, the directors decided subsequently that it would not be in the best interests of the shareholders to proceed to a listing. Also in 1988 an offer was made for Parker Pen by Pentland Industries but this too was not proceeded with.

2.23. In 1989 certain of the investors wished to realize all or part of their investment in Parker Pen and a decision was taken to refinance the group. Parker Pen Holdings Limited (Parker Pen Holdings) was established to acquire the entire ordinary and preference share capital of Parker Pen in a cash and share offer financed through a £75 million banking facility from Barclays Bank plc. It was also agreed by shareholders in 1989 that they should be provided in 1992 with an opportunity to realize their investment.

2.24. The present shareholders and share capital structure of Parker Pen Holdings are shown in Table 2.2.

TABLE 2.2 Parker Pen Holdings: present shareholders and share capital structure

Ordinary shares of £1 each	Issued £m	Shareholders
'A'	0.3	PPHL management
'B'	0.8	Institutions, PKR Associates and executives*†
'D'	<u>0.1</u>	One US bank
	1.2	

Source: Parker Pen Holdings.

*Parker Pen Holdings has a share option scheme under which there were in addition, at 28 February 1992, options remaining over 81,650 of the company's 'B' Ordinary shares at exercise prices between £10 and £70 per share. Category 'B' shareholders include small holdings by executives as a result of the exercise of share options.

†PKR Associates represents various interests of the Parker family.

Note: All shares have equal rights to dividends and to return of capital on a winding up. The 'A' and 'B' shares carry votes. The 'D' shares are non-voting.

2.25. Although issued share capital is £1.2 million only, total net equity shown in Appendix 2.10 was £18.4 million at 28 February 1992. In January 1992 an Information Memorandum was issued by Schroder Wagg & Co Limited on behalf of Parker Pen Holdings inviting bona fide purchasers to submit indicative offers for the share capital of the company by 12 March 1992. A number of offers were received. A conditional offer made by Gillette, which valued Parker Pen Holdings at £285 million, was subsequently accepted and an Agreement between the two companies on the sale was announced on 10 September 1992. The offer was conditional on, among other things, notification to and approval by the relevant competition authorities in the UK, Germany, France, Canada and the USA.

Organization

2.26. The group, which operates from head offices in Newhaven, has a total of 19 marketing subsidiaries and 87 major independent distributors. Details of the group's corporate structure are set out in Appendix 2.8.

Employment

2.27. Parker has some 2,500 employees of whom about 770 are employed in the UK.

Financial information on Parker

2.28. The group balance sheet of Parker Pen Holdings as at 28 February 1992 showed that the gross value of its world-wide assets (ie excluding liabilities) at that time amounted to £115.0 million, comprising fixed assets £22.8 million and current assets £92.2 million. Gross value of world-wide assets would be £103 million if a loan repayment of £12 million due in March 1992 was deducted; we know of no other significant change since the group's year end which would materially reduce that value.

2.29. Table 2.3 shows a summary of the trading results of the Parker Pen group for the five years to 28 February 1992. Due to the refinancing referred to in paragraph 2.23, the table shows the results of two different legal entities, Parker Pen for 1987/88 and 1988/89 and, subsequently, Parker Pen Holdings. Parker Pen Holdings states that the results for these periods are not directly comparable due to fair value adjustments made to the values of assets and liabilities on acquisition by Parker Pen Holdings and to changes in accounting policy.

TABLE 2.3 Parker Pen and Parker Pen Holdings: summary of trading results for the five years to 28 February 1992

	£ million				
	Year ended 28 February				
	Parker Pen		Parker Pen Holdings		
	1988	1989	1990	1991	1992
Turnover	134.3	144.2	160.9	170.4	181.3
Gross profit	64.9	73.4	84.0	91.5	99.0
Operating profit	19.8	23.4	30.9	32.7	35.8
Net interest payable	(1.8)	(2.1)	(9.8)	(9.2)	(6.4)
Average capital employed	45.1	40.5	39.9	43.8	52.6
<i>Ratios*</i>					<i>per cent</i>
Gross margin (gross profit as a percentage of turnover)	48.3	50.9	52.2	53.7	54.6
Net margin (operating profit as a percentage of turnover)	14.7	16.2	19.2	19.2	19.7
Return on average capital employed	44.0	57.9	77.6	74.7	68.0
Interest cover (number of times net interest payable covered by operating profit)	11.2	11.2	3.2	3.6	5.6
					<i>times</i>

Source: Parker Pen Holdings.

*Calculated on figures rounded to the nearest £'000.

2.30. The Parker Pen group turnover, gross profit and operating profit increased in every year between 1987/88 and 1991/92. Gross margins exceeded 50 per cent in each year from 1989. Net margins increased from 14.7 per cent in 1987/88 to 19.7 per cent in 1991/92. Interest charges have been covered several times by operating profits. Returns on average capital employed of between some 44 and 78 per cent have been made; however, the Parker brand name is not valued in the company's balance sheet.

Profit and loss accounts

2.31. Detailed profit and loss accounts of Parker Pen for the two years to 28 February 1989 and Parker Pen Holdings for the three years to 28 February 1992 are shown in Appendix 2.9.

Balance sheets

2.32. The consolidated balance sheets of Parker Pen for the two years to 28 February 1989 and Parker Pen Holdings for the three years to 28 February 1992, which consolidate the balance sheets of the holding company and its subsidiaries world-wide, including Parker Pen UK, are shown in Appendix 2.10.

2.33. The issued share capital of the group at £1.2 million is small in relation to its capital employed and level of trading. Appendix 2.10 shows that capital employed is primarily financed by borrowings. Borrowings net of cash were £42.4 million at 28 February 1992.

2.34. Equity finance has been increased by retained profits and by provisions (set up for liabilities and charges not yet crystallized), which together totalled some £80 million at 28 February 1992. However, these retentions are largely offset by a negative merger reserve (explained in Appendix 2.11) so that net equity at 28 February 1992 was £18.4 million only.

2.35. Gearing (borrowings net of cash as a percentage of net equity) was some 230 per cent at 28 February 1992. This is based on net equity after deduction of the merger reserve. However, as shown in Table 2.3, interest was covered some 5.6 times by operating profit in 1991/92. Borrowings net of cash and investments were 69 per cent of capital employed at 28 February 1992.

2.36. Over the three years from the refinancing in 1989, dividends paid and proposed were £8.4 million on share capital of £1.2 million.

Sources and application of funds

2.37. Appendix 2.12 shows sources and application of funds statements of Parker Pen for the two years to 28 February 1989 and Parker Pen Holdings for the three years to 28 February 1992. The acquisition of Parker Pen by Parker Pen Holdings, financed partly by issue of shares and partly through borrowings, is reflected in the statement for 1989/90. Excluding this, there was a net repayment of other borrowings during the five-year period and applications were almost entirely financed by the respective holding companies by funds generated from their own operations.

Parker Pen UK Limited

Turnover

2.38. An analysis of the turnover of Parker Pen UK in 1991/92, separating UK domestic, export and inter-company sales, is shown in Table 2.4. Excluding sales to other companies in the group for resale by them, the UK company's external sales (domestic and export) totalled £48.1 million in 1991/92, representing 26.5 per cent of group sales of £181.3 million.

TABLE 2.4 Parker Pen UK: UK domestic, export and inter-company turnover for the year ended 28 February 1992

	<i>£ million</i>
UK domestic	25.8
Export	22.3
Inter-company	23.5
Total	71.6

Source: Parker Pen UK.

2.39. An analysis of the UK domestic turnover, cost of sales, gross profit and gross margin of Parker Pen UK in the year ended 28 February 1992 by trade channel is shown in Table 2.5.

TABLE 2.5 Parker Pen UK: UK domestic turnover, cost of sales (net of inter-company margin), gross profit and gross margin for the year ended 28 February 1992 by trade channel

	Turnover	£ million		per cent
		Cost of sales	Gross profit	Gross margin*
In-flight and airports	[
Business to business				
Independent and wholesale				
Multiples				
Miscellaneous:				
Writing instruments				
Writing paper				
Total UK domestic]			

Figures omitted.
See note on page iv.

Source: Parker Pen UK.

*Calculated on figures rounded to the nearest £'000.

2.40. Gross margins in 1991/92 were greater on UK domestic turnover, at [*] per cent overall, than on the UK's company turnover in total, shown in Table 2.6 at 42 per cent.

Profit and loss accounts

2.41. The trading results of Parker Pen UK for the five years to 28 February 1992 and forecast profit and loss account for the year to 28 February 1992 are summarized in Table 2.6.

TABLE 2.6 Parker Pen UK: summary of trading results for the five years to 28 February 1992 and forecast turnover and profit for the year to 28 February 1993

	Year ended 28 February					£ million
	1988	1989	1990	1991	1992	Forecast 1993
Turnover	54.6	58.1	62.7	73.7	71.6	67.1
Gross profit	21.3	25.6	28.3	28.7	30.3	26.3
Operating profit	9.7	12.7	14.9	14.7	13.8	11.7
Average capital employed	23.3	24.5	23.9	20.4	21.2	
						per cent
Ratios*						
Gross margin	39.0	44.1	45.1	38.9	42.4	39.2
Net margin	17.7	21.9	23.8	20.0	19.3	17.4
Return on average capital employed	41.4	51.7	62.5	72.3	65.0	

Source: Parker Pen UK.

*Ratios to year ended 28 February 1992 are calculated on figures rounded to the nearest £'000.

2.42. The sales of Parker Pen UK peaked in 1990/91 at £73.7 million and operating profit in 1989/90 at £14.9 million. In 1991/92 both sales and operating profit declined and a further decline to £67.1 million and £11.7 million respectively is forecast for 1992/93. Parker Pen UK attributed this decline primarily to the effects of the recession in the UK and the growing recession in Europe affecting inter-company sales to Parker's European marketing operations.

2.43. Overall gross margins between 39 and 45 per cent have been earned during the period. Net margins have declined since 1989/90, in particular due to higher administrative expenses in 1991/92. Net margins are forecast to decline further to 17.4 per cent in 1992/93.

*Figure omitted. See note on page iv.

2.44. Returns on average capital employed between some 41 and 72 per cent have been made; however, the Parker brand name is not valued in the company's balance sheet. Details of Parker Pen UK's capital employed are shown in Appendix 2.14.

2.45. Apart from net interest of £0.1 million payable in 1987/88, Parker Pen UK had no other net interest charges over the five years to February 1992. Over this period, Parker Pen UK's dividends to its parent company, paid and proposed, totalled £37.9 million.

2.46. Detailed profit and loss accounts of Parker Pen UK for the five years to 28 February 1992 and the forecast for the year to 28 February 1993 are shown in Appendix 2.13.

Balance sheets

2.47. The balance sheets of Parker Pen UK for the five years to 28 February 1992 are shown in Appendix 2.14. These show an increase in capital employed since 1990 but no net borrowings at the year ends between 1989 and 1992.

Sources and application of funds

2.48. The sources and application of funds of Parker Pen UK for the five years to 28 February 1992 are shown in Appendix 2.15. These show applications, including dividend payments of £37.9 million to the parent company over the period, being funded entirely by Parker Pen UK from its own operations.

3 The UK market for writing instruments

Introduction

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

The product

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

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

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

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

3.6. The next major writing instrument innovation was the roller ball pen, a product midway between the fountain pen and the ball point, with the convenience of the latter but using liquid ink similar to that used in fountain pens. This was introduced by the Japanese company Pentel in 1974, and has subsequently established itself firmly in the market. Parker has had a considerable success

with its own roller ball pen, which uses a fountain pen-type feed mechanism to get the ink to the point, rather than the more usual method of gradually draining the contents of an ink-soaked pad. During the last decade or so, there have been other product developments, such as the introduction of fibre-tip pens and erasable ink, and marginal technical improvements in existing products. But none is considered to have had a major impact on the quality writing instruments market.

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

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

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

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

Source: Mintel.

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

Size and structure of market

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

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

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

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

Production methods

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

3.15. Most higher-priced pen ranges involve a considerable variety of finishes—stainless steel, epoxy, matte, lacquer, gold, silver, and many more. Specialist techniques include lacquering, epoxy-coating, electro-plating, sputtering¹ and engraving. The production of nibs for fountain pens is a highly-skilled, labour-intensive operation, involving up to 20 stages, including engraving, plating, cutting and polishing. Refills are incorporated in finished writing instruments and supplied as accessories. Production and packing of refills is a highly automated process.

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

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

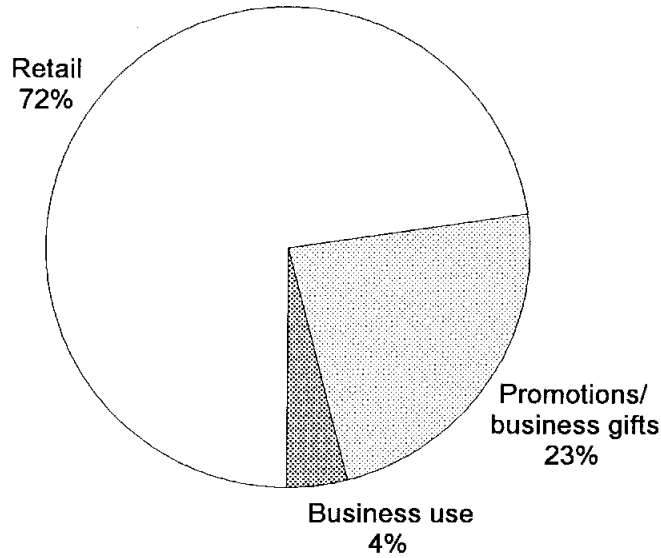
3.18. We understand that at the kind of volumes obtained in the quality writing instruments market there is relatively little scope for the use of dedicated, high-speed, automatic machinery. However, production by Parker of its relatively high-volume Vector and Jotter products is an exception to this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

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

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

FIGURE 3.1(a)

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



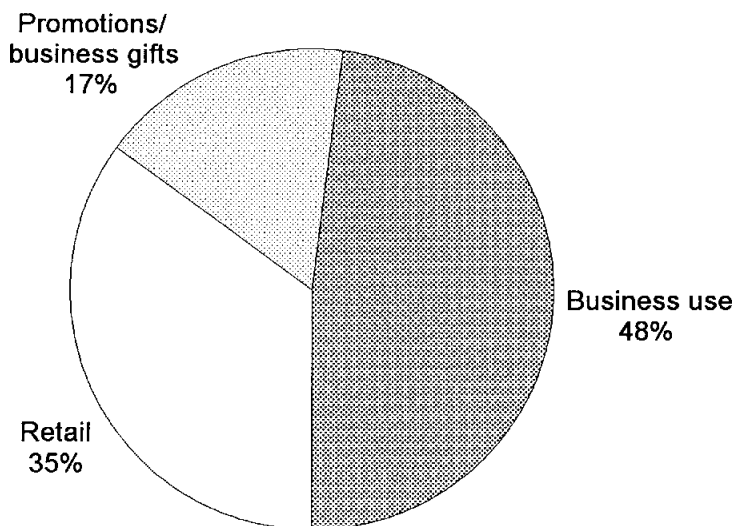
Source: Market Measures.

*Covers 12 months to June 1991.

Note: Figures do not sum to 100 because of rounding.

FIGURE 3.1(b)

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



Source: Market Measures.

*Includes refillables below £2.50.

†Covers 12 months to June 1991.

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

Demand for writing instruments

Channels of supply

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

Disposables and refillables

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

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

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

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

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

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

Source: Market Measures.

*Year to June 1991.

†Includes disposable and plastic-nibbed fountain pens.

‡These categories are excluded by Market Measures from its definition of the 'quality instrument market'.

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

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

	%
Retail	53
Business use	27
Promotions/business gifts	20

Source: Market Measures.

*Year to June 1991.

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

Demand for refillables

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

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

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

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

Suppliers

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

- (a) *Parker*, a British company, is by far the largest supplier to this market, though not to all segments of it. Its main supply source is Newhaven, though some products are sourced from France and the US, and certain important manufacturing processes are carried out in France for both the Newhaven and US plants. Parker supplies the full product range (ball points, roller balls, fountain pens and mechanical pencils), and covers the full price range, though its main market strength is below £50.
- (b) *Waterman*, owned by Gillette, manufactures in France. Like Parker, it offers a full range of products and prices. However, unlike Parker, its main strength is in the over-£50 segment.
- (c) *Paper Mate*, also owned by Gillette, has its main manufacturing source in the US, though it also has manufacturing facilities in other parts of the world, especially South America. Paper Mate products are also sourced from a wide range of contract manufacturers, located principally in Japan, Germany and Italy, but not in the UK. The Paper Mate brand covers all the main product types (fountain pens, ball points, roller balls, mechanical pencils) but 70 per cent, in value terms, are disposables, sold at under £2.50. Its refillables are all in the under-£50 segment, mostly under £10.

Other suppliers include the following, in alphabetical order:

- (d) *Colibri* is a British company, marketing a range of fashion accessory products, of which writing instruments are currently the most important component. It sells in all price segments but is strongest in the £10 to £50 range. Its sales of writing instruments consist partly of imports primarily from Germany and Japan, and partly of instruments assembled from components imported from Germany, Japan and other countries.
- (e) *A T Cross* (Cross) is a well-known US company, manufacturing writing instruments in the US and Ireland. It supplies all of the main product types, though its principal sales are of ball point pens. Its sales are largely concentrated in the £10 to £100 segment, though it also has a presence in the £100-plus segment. Cross is an important supplier to the jewellery sector and to the business gifts market.
- (f) *Diplomat* is a German brand, covering all types of refillables. It entered the UK market in 1990, and has progressively increased sales, especially to department stores and pen specialists.
- (g) *Dunhill* is a brand that covers a range of luxury products, of which writing instruments (priced at £50 and above) is only one category. It is owned by Compagnie Financière Richemont AG of Switzerland, which also owns the Montblanc and Cartier brands.

- (h) *S T Dupont* is a French company, founded in 1872 and owned for a period during the 1980s by Gillette and now owned by Dickson Concepts (The Dickson Group of Companies) of Hong Kong. It manufactures and markets a wide range of luxury products, of which writing instruments (all of which retail above £50 in the UK) is just one category.
- (i) *Elysée* is a brand owned and manufactured in Germany, and until now distributed by the GBA Book Company Ltd (GBA), an independent distributor. Its writing instruments, which cover the full product range, have a distinctive style, and they have made a significant impact in the £10 to £50 price segment in recent years, using very little advertising. The brand was recently purchased by Staedtler, a German company that is strong in the disposables market. Staedtler has started distributing the *Elysée* brand from January 1993.
- (j) *Lamy* is also a brand owned and manufactured in Germany, and distributed in this country by GBA. It has a distinctive style, and has achieved a significant share of the lower-price end of the refillables market.
- (k) *L'Plume* is a brand that seems to have been making an increasing, if still relatively small, impact on the market. It is based at The Pen Factory in Treburley, Cornwall. Until a few years ago the company was based in Hong Kong, with UK sales handled by a distributor. A full range of product types is supplied to the market, at retail prices from £8 to £38. Supplies were initially sourced from abroad, but the proportion of UK content has been increasing rapidly.
- (l) *Montblanc* is a long-established German brand. It is owned by Compagnie Financière Richemont AG of Switzerland, which also owns the Dunhill and Cartier brands. Montblanc has only recently come to the fore in the UK, with its main fountain pen product, the 'Meisterstück', establishing itself as a 'cult pen' in the second half of the 1980s. Though the full product range is supplied, principal sales are of fountain pens. Montblanc products are virtually confined to the expensive end of the market, above £50; and it is widely considered to be the market leader above £100.
- (m) *Osmiroid* is a brand of refillables specializing in calligraphy products supplied to the lower-priced end of the under-glass sector. It was a British company until 1989, when it was acquired by Berol, a British manufacturing company with US owners, which is a major supplier of disposables to the UK market.
- (n) *Pelikan* is a well-known brand of a German company of the same name, which is a subsidiary of Overpart, of Switzerland. It covers a range of office products in addition to all types of refillable writing instruments. On the Continent it has a strong position in fountain pens sold to schoolchildren, as well as in the under-glass market. It has not yet, however, made significant gains in the UK market, though it is understood to be trying to do so.
- (o) *Platignum* is a long-established British company. It used to be strong in refillables, and still sells into the lower end of that market. Its principal strength now lies in disposables and cheap (under £2.50) refillable products aimed at the school market.
- (p) *Sheaffer* is a long-established US pen manufacturer, currently owned by the Swiss investment group, Gefinor. It makes a full range of products, but the bulk of its UK sales are of ball points and fountain pens. Although it sells in all price segments, Sheaffer's main strength is in the £10 to £100 segment.
- (q) *Tombow* is the brand name of a large Japanese manufacturer of writing instruments, mainly disposables, but also refillables up to about £150. Its products are widely distributed in the UK, and are distinguished by their unusual design features.

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

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

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

Suppliers' market shares

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

The market for refillable writing instruments over £2.50

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

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

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

Source: Market Measures.

*Year to June 1991.

†Does not sum to 100 because of rounding.

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

operation in Sussex. The only other brands of refillables sourced in the UK are Platignum, mainly manufacturing products at under £2.50; Yard-o-Led, manufacturing a small number of very expensive writing instruments in Birmingham, and Osmiroid, a subsidiary of the US company Berol. All other brands of refillables are imported.

Suppliers' shares of the market for refillables

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

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

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

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

Source: MMC based on Market Measures.

*12 months to June 1991.

†Excludes markers, felt-tip pens and technical writing and drawing instruments.

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

	Retail price bands				Total (a)-(d)	Refills £'000
	£2.50-£9.99 (a)	£10-£49.99 (b)	£50-£99.99 (c)	£100+ (d)		
Parker	32,050	14,440	3,830	2,170	52,490	6,930
Gillette-Waterman	180	2,260	1,130	1,540	5,110	890
Gillette-Paper Mate	<u>1,400</u>	<u>630</u>	-	-	<u>2,030</u>	<u>1,670</u>
Parker and Gillette	33,630	17,330	4,960	3,710	59,630	9,490
Others	<u>9,720</u>	<u>14,260</u>	<u>7,510</u>	<u>4,950</u>	<u>36,440</u>	<u>3,830</u>
Total	43,350	31,590	12,470	8,660	96,070	13,320

Source: MMC based on Market Measures.

*12 months to June 1991.

†Excludes markers, felt-tip pens and technical writing and drawing instruments.

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

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

3.40. Comparing Table 3.5(b) with Table 3.6¹ shows a reduction in Parker's sales, concentrated in the lowest price segment, between the Market Measures survey period (12 months to June 1991) and Parker's financial year (to February 1992). We were told by Parker that this was due to a sharp reduction in its sales to the business gifts market. Without estimates of changes in the total size of the market we are unable to come to a firm view about the change in Parker's share, either of the refillables market as a whole or of particular price segments. However, a comparison of Market Measures' estimates of other companies' sales, underlying Table 3.5(b), with those companies' estimates of their own 1991 sales in Table 3.6 indicates that there has been a reduction in Parker's market share, especially in the £2.50 to £9.99 price segment.

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

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

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

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

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

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

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

Source: MMC, based on data from individual suppliers.

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

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

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

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

Source: Market Measures.

*Year to June 1991.

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

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

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

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

Recent developments in market share

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

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

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

	<i>per cent</i>		
	1982	1985	1991†
Parker	30	43	69
Paper Mate	20	23	3
Others	50	34	28

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

*£2 to £8 segment in 1982 and 1985.

†Year to June 1991.

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

TABLE 3.9 Brand shares, over £10*

	<i>per cent</i>		
	1982	1985	1991
Parker	48	55	36
Waterman	2	-	9
Paper Mate	15	12	1
Others	35	33	54

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

*Over £8 in 1982 and 1985.

Market shares by product

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

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

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

	<i>per cent</i>	
	<i>By value</i>	<i>By volume</i>
Fountain pens	35	17
Ball point pens	35	40
Roller balls	20	33
Mechanical pencils	8	9
Calligraphy	2	2

Source: Market Measures.

*Excludes felt-tip pens, markers and technical pens.

†Year to June 1991.

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

Main channels of sales

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

The retail market

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

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

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

Source: Market Measures.

*Year to June 1991.

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

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

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

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

Source: Market Measures.

*Year to June 1991.

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

Department stores

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

Small independent retailers

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

Specialized multiples

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

Stationery stores

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

Pen specialists

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

Other categories

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

Competition among suppliers

Retail marketing

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

TABLE 3.13 Sales promotion expenditure, 1991

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

Source: Parker and Gillette.

*The bulk of Paper Mate's expenditure relates to disposables.

†Includes cost of public relations, samples, visits to trade fairs, hospitality, market support, direct mail.

Media advertising

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

Catalogue advertising

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

Promotions to the wholesale and retail trade

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

Display showcases

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

Pen department refits

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

Consultants/demonstrators

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

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

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

selling periods. In Gillette's case, all their (full-time) consultants, and most of their (part-time) demonstrators, receive a small commission on their Waterman sales, in addition to a basic salary.

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

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

Other forms of marketing expenditure

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

Price competition between suppliers

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

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

Barriers to entry to the retail market for refillables

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

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

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

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

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

Actual and potential entry to the retail market

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

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

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

Competition between retailers

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

Stationers and Stationery Plus are retail chains specializing in selling at discounted prices, mainly lower-priced instruments.

The promotion/business gifts market

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

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

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

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

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

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

Source: Market Measures.

*Year to June 1991.

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

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

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

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

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

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

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

The market for business use

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

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

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. W H 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 overrides 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.

5 Views of third parties

5.1. We invited views from manufacturers, suppliers, retailers and wholesalers of writing instruments, trade and consumer associations, trade unions and a number of other interested parties. This chapter summarizes the evidence we received.

Manufacturers and suppliers

Sheaffer Pen (UK) Ltd

5.2. Sheaffer Pen (UK) Ltd (Sheaffer) is a subsidiary of a major US pen manufacturer and is a long-established supplier of writing instruments to the UK market. Sheaffer told us that the bulk of its products were retailed under glass in the £20 to £75 price range roughly equally through multiple department stores, independent retailers and W H Smith. In addition, 17 per cent of its sales were to the business gifts market either via business gift houses or direct to major customers.

5.3. We asked Sheaffer why its share of the lower-priced segment of the UK refillable writing instruments market (£2.50 to £10) appeared to have fallen substantially between 1982 and 1991 (see also paragraph 3.50). Sheaffer told us that this had resulted from a deliberate company strategy to ensure consistency of the style and appeal of its product range around the world. In the UK this had resulted in the withdrawal of all Sheaffer products over a retail price of £10 from self-service areas in retail outlets. The aim of this strategy had been to maximize sales of Sheaffer products in the under-glass areas where consumers had access to service and advice.

5.4. Sheaffer told us that it competed with other branded suppliers in advertising, discounts to retailers, the development of new finishes and products, and for display space in retail outlets. Sheaffer said that competition for display space in stores was particularly fierce. The UK retail market was dominated by a relatively small number of multiple retailers; it was essential for a supplier to be represented in as many of these outlets as possible. Sheaffer also invested heavily, as did other suppliers, by placing its own trained demonstrators into stores to attract customers to its own products. Retailers were keen for suppliers to compete in this way as it often brought increased turnover and reduced their own staff costs since demonstrators were either paid for fully by the supplier or costs were split 50:50. Many suppliers also produced their own showcases for displaying their own products within the stores and competed with other suppliers for prime display positions.

5.5. Sheaffer said that entry into this market was difficult. It had been tried by new entrants who had offered retailers stock on a sale-or-return basis, but this was very expensive. Sheaffer said it was concerned that a merged company which combined the Parker and Waterman brands would have a dominant position in the quality instruments market. With Paper Mate it would straddle the whole market from disposables to the most expensive pens. Its position would give it the power unfairly to influence and pressurize retail customers with the risk of monopolizing some channels of distribution. Sheaffer believed that there was a real danger that the combined company would use discounts, pricing and overriding discounts to gain further market position for its products, thereby pushing other competitors into the background. Parker/Waterman could set up merchandising deals to obtain the best sites for its products in stores but would charge competitors a high price for a share in the merchandising space, eg where Parker/Waterman would offer to set up a pen department in a store, pay for all the showcases and display units, then recharge competitors a high price for any space used.

Sheaffer added that this was a practice already in use by Parker and the acquisition would increase its ability to be able to do this.

5.6. Sheaffer also feared that an increase in the number of Parker/Waterman in-store demonstrators would enable it to monopolize many stores. Other brands could not afford to employ as many demonstrators in the larger stores or any demonstrators in the smaller stores as this required a significant investment. A combined company might also be able to offer retailers 'exclusive listing package deals' where Parker/Waterman/Paper Mate products would be offered as an exclusive range in return for special discounts, consultants' support, etc. Major multiple retailers might be able to resist but others might not because they would be more interested in turnover than choice and they could still offer customers a choice of Parker and Waterman brands. For the consumer, Sheaffer said that the merger could result in a reduction in the choice of brands or ranges of pen, possible price exploitation, and increased emphasis on display and selling support which could 'force' customers towards Parker and Waterman products.

A T Cross UK Ltd

5.7. A T Cross UK Ltd (Cross) is a subsidiary of the A T Cross Co (USA). The company was established in the USA in 1846 and now distributes quality writing instruments in around 140 countries world-wide. Cross has two production plants: one in New England and another in the Republic of Ireland. The UK company was established in 1979 though Cross products had been available in this country through a number of independent distributors for many years. Cross's complete product range in the UK starts at around £15 and extends to luxury products sold for more than £2,000. The bulk of Cross sales are in the range of £100 or below.

5.8. Cross told us that the quality pen market was very competitive and it had grown more so over the last ten years. Cross also said that there had been growth in the quality pen market as a result of greater personal wealth, a desire to improve handwriting, and increasing cachet attached to the ownership of a quality product. Cross estimated that 18 brands had either entered or re-entered the market or had been relaunched since 1979, some below £10 in price but the majority over.

5.9. Cross said that manufacturers competed in many areas: on price; in advertising—vital for brand awareness; through special promotions, eg free ball pen with each pen or trade-in offers; through the use of in-store consultants; display case size, and location of display cabinets and location of products and space allocation within cabinets; and in the research and development of existing products and the development of new products.

5.10. Cross said that if the merger went ahead the combination of the Waterman and Parker brands alone (leaving aside Paper Mate, which tended to compete more at the lower end of the market) would give the merged group close to 50 per cent of the quality writing instruments market. Cross referred to recent MMC merger reports¹ where combined market shares were of a similar size and where the MMC had found the mergers to be against the public interest. Cross considered that with market shares at this level, the merged group would clearly be dominant: it would be able to act to a large extent without having to take into account the actions of competitors and customers. Cross said that this would have a particularly detrimental effect in the middle sector of the market for products ranging between £25 and £75. In the longer term Cross said that it believed this would be detrimental to smaller competitors such as Cross, and ultimately to retailers and the consumer.

5.11. Cross argued that Parker was already able to exert considerable influence in the market as a result of its strong market position and brand leadership. This had enabled Parker in many cases to dictate the way in which its products and the products of its competitors were displayed, marketed and sold in retail outlets. There were two principal ways in which this had occurred. Firstly, Parker had increasingly in recent years pursued a strategy of carrying out the refitting of many retail customer

¹ *Coats Viyella Plc and Tootal Group plc: a report on the merger situations*, Cm 833, October 1989; *Michelin Tyre PLC and National Tyre Service Ltd: a report on the merger situation*, Cm 986, March 1990; *Elders IXL Ltd and Grand Metropolitan PLC: a report on the merger situations*, Cm 1227, October 1990; and *Sara Lee Corporation and Reckitt & Colman plc: a report on the acquisition by Sara Lee Corporation of part of the shoe care business of Reckitt & Colman plc*, Cm 2040, August 1992.

outlets, funding initially the cost of installing new glass display cases and then charging other manufacturers for a share of this space by setting the charges to be applied by the retailer. This had resulted in Parker securing the most advantageous display position for its products in those outlets. Typically, the products of other smaller competitors were relegated to less visible positions, so that the consumer was more likely to select a Parker product in preference to some other brand. Where department stores installed their own cases Cross tended to be given better positions and space which invariably generated higher proportionate sales.

5.12. Cross said that the second method which Parker had used to strengthen its market position and its level of brand awareness was to underwrite the cost of employing specialist sales staff in many retail customer outlets. In some cases, the individuals concerned were directly employed by Parker; in others the cost was underwritten by Parker. In each case, Cross said, the effect was the same: increased dependence by the retailer on Parker, increased promotion by the individuals concerned of Parker products in preference to other brands, and denial to the consumer of independent advice on purchases. Because of its strong market position, Parker was able to engage in these practices on a scale which Cross as a smaller competitor could not afford. The proposed merger was likely to exacerbate this situation.

5.13. Cross said that another concern about the merger was that a combination of three major brands (Parker, Waterman and Paper Mate) under the same ownership, coupled with the continued adoption of these marketing strategies, would substantially increase the dependence of retailers on the merged group at the expense of smaller competitors. Cross considered that it would be relatively easy for the merged group in this position to go one stage further in its relationship with retailers and seek to influence not only their display policies but their stocking policies as well. In other words, because the merged group would be able to offer two premium brands (Parker and Waterman) and one lower-priced brand (Paper Mate), it would be able to offer attractive loyalty bonuses and discount packages and could target promotions specifically at competitors' products and could induce retailers to drop the products of other competitors. Cross said that it feared the merged group would adopt this strategy not simply in relation to refillable writing instruments, but also in relation to refills for those products. If refills for products of manufacturers such as Cross were not widely available in retail outlets (or if they were perceived by consumers as not being widely available), this was likely to influence consumers not to buy Cross writing instruments in the first place, since in general the refills of different manufacturers were not interchangeable.

5.14. Cross added that although in the short term retailers were likely to benefit from attractive promotional offers from the merged group, in the longer term, as the smaller competitors were squeezed out, consumer choice would be reduced and there would be every opportunity for the merged group to raise prices.

5.15. Cross said that particular concerns arose in the corporate gifts sector, where Cross competed directly with Parker and Waterman in selling to business gift houses. Cross said that the merger would leave it vulnerable if the merged group sought to use its increased market power to influence purchasing decisions through the use of aggregated discounts or other inducements.

5.16. Cross concluded that effective competition in the market could only be maintained if the merger were disallowed. If, however, the merger was allowed Cross suggested that some of its concerns might be allayed if Gillette were required to divest itself of ownership of Waterman and also to give specific and detailed undertakings relating to its future sales, promotional and marketing activities. Cross added that divestiture of Waterman would still leave Gillette/Parker with a dominant share of the non-luxury end of the refillable writing instruments market. Parker would continue to be a leading supplier in the luxury end of the market and Cross doubted whether any undertakings could be effectively enforced.

Dunhill Holdings PLC

5.17. Dunhill Holdings PLC (Dunhill) markets the Dunhill and Montblanc brands of writing instruments in the UK on behalf of its subsidiary companies, Alfred Dunhill Ltd and Montblanc-Simplo GmbH. Dunhill is in turn itself owned by Compagnie Financière Richemont AG of Switzerland, an investment group. Both Dunhill and Montblanc brands are manufactured in Hamburg.

5.18. Dunhill said that most of its products fell within the upper price band where the image which a product projected was vital to its success. Dunhill said that the market was highly competitive. Suppliers competed on the quality of their products, advertising, on the number of in-store consultants they employed, the availability of selling space, the design of display cabinets, discounts to retailers, and on the research and development of new mechanisms and finishes for new styles of product. Dunhill added that though it did not compete on price promotions, pricing was nevertheless a sensitive issue. Whilst Dunhill followed its competitors to some extent, it had to be careful that it did not price itself out of the market.

5.19. Dunhill said that it believed market forces had created clearly identifiable sectors within the writing instruments market. The resulting balance had come about because of healthy competition which, if sustained, was in the interests of the consumer. The proposed merger of a number of significant brand names might adversely affect, if not destroy, such a status quo.

5.20. Dunhill considered that in view of the brands of writing instruments currently owned by Gillette, the addition of a further leading brand like Parker would have potentially adverse implications both for other brand names, including Dunhill's, and for the consumer. Dunhill said that a combination of such brand names would produce a single dominant market force, not only in the luxury sector but throughout the entire writing instruments market. Such a market force would obviously have considerable leverage over both the wholesale and retail trade and might consequently inhibit consumers' freedom of choice.

5.21. Dunhill told us that a merger between Gillette and Parker would put that group in an unfair trading position in that it would not only be able to exchange marketing technology and information but it would also create a substantial distribution network at both wholesale and retail levels. This would severely impede and adversely impact upon unrestricted freedom to compete in the writing instruments market.

5.22. Dunhill said that it was particularly concerned that a combined group would be able to pressure retailers to increase the amount and quality of display space presently allocated to the individual Parker and Waterman brands, pushing smaller brands to secondary display areas or forcing them out of the market altogether. With a brand like Montblanc it was vital that its products were shown in an environment that fitted its brand image. Even large retailers, such as W H Smith or Selfridges, would not be immune to such pressure because the threat of removal of the Parker brand in the UK was such that it would, if carried out, leave any retailer without a credible pen display.

GBA Book Company Ltd

5.23. GBA has, since 1983 and 1987 respectively, distributed the Elysée and Lamy brands of pens in the UK, on behalf of their separate German manufacturers. GBA told us that in that time Elysée had established itself as a significant player in the writing instruments market with some 6 per cent of the £10 to £50 price range and 2 per cent of the over-£50 range. Lamy's share of the medium-priced market was somewhat smaller. GBA was also the UK distributor for Montblanc from 1974 to 1981 and for Waterman from 1981 to 1983. From 1 January 1993 Staedtler, which recently acquired Elysée's parent company in Germany, would be responsible for the distribution of the Elysée brand in the UK whilst Lamy's parent company would also be responsible for its own distribution from that date. GBA said that all Elysée and Lamy pens were sold under glass except for two Lamy products which were sold in blister packs.

5.24. GBA said that the under-glass market was a competitive one; suppliers competed on price, finish and colour of products, discounts to retailers, display space and use of in-store consultants. Lamy did not employ consultants but Elysée had a limited number. GBA said that some stores would not display a supplier's product unless the supplier was prepared to provide an in-store consultant. GBA added that five new under-glass pen suppliers had entered the market in the last ten years; most had had the backing of substantial companies.

5.25. GBA considered that the merger would not be in the public interest or in the interest of the trade in general. If the acquisition went ahead, Gillette, through ownership of both Parker and

Waterman, would control 75 per cent of the market for pens over £10 and would be able to exert pressure on retailers to devote the maximum amount of selling area to these two brands alone. This would be to the detriment of Gillette's competitors and also to the public because it would limit the amount of space retailers would be able to devote to other makes. It would also tie too large a percentage of the retailers' budget to Gillette's brands.

5.26. GBA told us that the combined advertising budgets of Parker, Waterman and Paper Mate could not be matched by any of their competitors; this also applied to their promotional activities which included the placing of demonstrators/consultants in numerous outlets throughout the country. The group would also have the resources to refit retailers' pen departments on a scale that could not be matched by any competitor, which would result in more pressure being placed on the retailer.

5.27. GBA added that though many of these pressures were already applied by Parker in the writing instruments field, retailers and competitors had managed to cope with them. However, the financial and market power of a combined Parker, Waterman and Paper Mate would enable the group to exert even more pressures on the retailer, particularly in discount terms, which might differ considerably from those retailers enjoyed at present. GBA thought that the merger would also disadvantage the business gifts market, as the merged group would be able to bypass the trade completely and offer terms which no other competitor or business gift house would be able to match.

Staedtler (UK) Limited

5.28. Staedtler (UK) Limited (Staedtler) is a major supplier of pencils and disposable and speciality pens, eg marker and overhead projection pens, to the UK market. Staedtler supplies about half the UK pencil market. Pencils are manufactured at Staedtler's Pontyclun factory in South Wales and its technical and speciality products are imported from its parent company in Germany. Staedtler also supplies a small number of refillable products.

5.29. Staedtler's parent company recently acquired Beinholtz-Dummert of Germany, manufacturer of the Elysée brand of pen, and decided that Staedtler should, from 1 January 1993, take over distribution of Elysée products in the UK from its present distributor, GBA (see paragraph 5.23). Staedtler said that it hoped to expand sales of Elysée products. It planned to do this through greater use of advertising, and increased investment in display cabinets and display space, though it recognized that achieving these objectives might be difficult because of the dominant position Parker and Waterman already enjoyed and because of the restricted numbers of retail outlets available in the UK market.

5.30. Staedtler said that a well-known brand name was of vital importance in the quality pen market. Staedtler gave examples of suppliers of well-known brands of disposable pens which had failed to penetrate the quality refillable pen market because consumers associated their names only with disposable products. Staedtler was concerned that the combined market shares of Gillette and Parker would enable the merged group to increase its control of the medium- and high-priced pen markets, where both companies already enjoyed an element of dominance. It would also have a large share of the lower-priced refillable, refills and disposable pen markets.

5.31. Staedtler believed that such dominance would ultimately distort competition and limit consumer choice, not only in the products available, but also in the number of available outlets. The combined power of Gillette/Parker in the market would ultimately mean that they could dictate prices and influence and dictate terms to component manufacturers and retail outlets.

Pentel (Stationery) Ltd

5.32. Pentel (Stationery) Ltd (Pentel) was established in the UK in 1967 and is a subsidiary of Pentel Co Ltd, Japan. The company's sales are mostly at the low-priced disposable end of the writing instruments market. Virtually all Pentel's products are priced below £2.50 with the exception of a few refillable roller ball pens and mechanical pencils; its main strength is in disposable roller ball pens.

5.33. Pentel said that its main competitors in the UK for disposable roller ball pens were Paper Mate and Pilot. Retailers' own-brand products were also major competitors. Large multiple retailers such as W H Smith had an immense amount of power in the UK market. A company's success depended very much on marketing decisions taken by such retailers.

5.34. Pentel considered that disposable pens were not in competition with refillables; this was certainly true for refillable products costing over £2.50. Pentel said that its decision not to enter the UK refillable pen market in a major way was a conscious one based on current market factors and market conditions that had prevailed over the last 20 to 25 years. The traditionally strong manufacturers of refillable products had not been Japanese. This was not to say that Japanese manufacturers were incapable of producing an equivalent product, but the strength of the existing suppliers to the refillable market was such that consumers preferred to buy an established name. This had restricted entry into that market by manufacturers not traditionally known for offering refillable pens: the Pentel name was not synonymous with refillable writing instruments.

5.35. Pentel said that it was concerned that if the merger went ahead its role as a brand leader of disposable writing instruments might be unfairly jeopardized because of the link between Paper Mate and Parker. A merger might give Parker the opportunity to introduce a range of quality disposable Parker products on the back of Paper Mate, using a combined Parker and Paper Mate sales force to market such products. Otherwise, it was not unduly concerned about the proposal.

Other manufacturers and suppliers

5.36. In addition to the above manufacturers and suppliers, all of which submitted written evidence and attended hearings with the MMC, we also received views on the proposed merger from a further seven suppliers.

The Pen Factory

5.37. The Pen Factory said that it had manufactured pens since 1981. Based in Hong Kong, its products had been sold, under the L'Plume brand, in the UK through an independent distributor. In 1990 the company moved to the UK and started manufacturing and assembling pens at a newly-commissioned factory in Cornwall.

5.38. The Pen Factory said that it had now assumed direct responsibility for the distribution of L'Plume products in the UK. It also exported to Japan, Switzerland, France and Poland. L'Plume pens were priced from £8 to £39 and sold mainly through independent stationers and gift shops. L'Plume had its own display cases which were provided free of charge to selected retailers; it also employed a number of consultants in the Christmas period.

5.39. The Pen Factory said that it had found it easy to enter the market and had no objection to the proposed merger. Parker had created a market situation in the UK where there was a 'right' price for a certain kind of product with a certain type of finish. This made it easier for a new entrant to target a particular price range and undercut the more established brands.

5.40. The Pen Factory added that it did not feel excluded by the consultant/demonstrator system though it did feel that this could be detrimental to the pen industry in the long term.

Berol Ltd

5.41. Berol Ltd (Berol) said that as a supplier of disposable writing instruments and lower-priced fountain pens it had no objection to the merger. However, it added that as the merger would bring together two strong higher-priced fountain pen brands in Waterman and Parker, this might raise concerns for other suppliers involved in that part of the market.

Colibri of London

5.42. Colibri of London (Colibri) markets a full range of writing instruments in the UK with products in all price sectors of the refillable pen market, with most selling for under £50. Colibri's sales of writing instruments consist partly of imports primarily from Germany and Japan and partly of instruments assembled in the UK from components imported from Germany and Japan and other countries. Colibri said that it planned to introduce a range of writing instruments made in the UK in 1994.

5.43. Colibri said that the proposed merger would, by the addition of the Parker brand to its existing Paper Mate and Waterman brands, dramatically strengthen Gillette's portfolio of major brands of writing instruments available in the UK. Colibri said that it was concerned that a growth in the combined group's share of the market would greatly increase its negotiating power with retailers and could, in several instances, preclude other brands obtaining even a small foothold in the market. Colibri thought that the merger would enable Gillette to negotiate special terms and display arrangements with retailers which would ensure that its brands were completely dominant within particular outlets and other brands would, if not completely excluded from main display sites, be pushed to less attractive non-central locations.

Diplomat Fountain Pen Company

5.44. Diplomat Fountain Pen Company (Diplomat) said that an acquisition of Parker by Gillette would be damaging to the stationery and writing instruments market. Other suppliers would find it extremely difficult to compete, both in the retail and business gifts markets, with one company which would market three brands of similarly-priced products.

S T Dupont Ltd

5.45. S T Dupont Ltd (Dupont) said that it competed in the higher-priced 'luxury' sector of the refillable writing instruments market. Its five main competitors were Montblanc, Parker, Waterman, Sheaffer and Cross; other suppliers were too small to consider. Dupont said that a merger which combined two of its five main competitors would not be good for the market as a whole. Dupont added that entry to the high-priced sector of the market was difficult and costly. Whilst entry could be achieved quite quickly at the lower, high-volume end of the market it could take many years to create customer awareness and gain acceptance of a new brand at the opposite end of the market.

Pelikan UK Ltd

5.46. Pelikan UK Ltd (Pelikan) said that a new entrant was unlikely to succeed in the UK refillable pen market unless it was initially prepared to commit considerable financial resources to advertising and promoting its products. Pelikan pointed out that in many retail outlets suppliers also had to bear the cost of buying display space and providing sales staff. If such costs outweighed sales profit smaller suppliers were unable to sell their products in key department store outlets.

5.47. Pelikan thought that the proposed merger was unlikely to have an adverse effect on the refillable pen market. Parker already dominated the £5 to £50 market to such an extent that the addition of Gillette's products would have a minimal effect on the market. However, Pelikan added that retailers might find that the discounts offered by such a major supplier would be reduced as a direct result of the merger.

Pilot UK Ltd

5.48. Pilot UK Ltd (Pilot) said that it sold most of its products in the disposable pen market. Pilot had, however, in the last two years, introduced a range of refillable fountain pens, ball pens and

mechanical pencils, priced around £4 and displayed wherever possible in Pilot's own cabinets. Pilot told us that a large amount of advertising was needed to promote a new brand of refillable pen. Consumers were reluctant to accept a new brand unless they had seen it advertised as a quality product. Pilot considered that the high cost of such advertising acted as a disincentive to new entrants to the market.

Zebra UK Ltd

5.49. Zebra UK Ltd (Zebra), a subsidiary of a large Japanese writing instruments manufacturer, said that it had started trading in the UK in May 1992. Most of its products were sold in the £1 to £3 price range though its full price range extended to £100. Zebra said that it intended to increase the sale of its more higher-priced products. It had already approached a number of multiple retailers and had been encouraged by their response. Zebra added that it did not consider a well-known brand name was essential for determining success in the UK refillable pen market.

Retailers

W H Smith (Retail) Ltd

5.50. W H Smith, with 447 retail outlets, is the largest retailer of writing instruments in the UK: it is also both Parker and Gillette's largest customer. Approximately 60 per cent of W H Smith's sales of refillable pens are in the £2.50 to £20 price range, of which over 80 per cent are priced between £2.50 and £10. W H Smith also has its own brands of disposable and refillable pens.

5.51. W H Smith stressed the importance of an established brand name in the refillable pen market. If a customer was prepared to spend a fair amount of money on a pen he wanted the assurance of quality and durability that a known brand name offered. A successful brand name could only be created over a number of years. To maintain it required a consistently high level of advertising, promotional spending and effective display, backed up by a consistently high quality of product. W H Smith said that there was no significant difference in performance between one brand and another, and only to a limited degree between one price point and another; what the consumer was increasingly paying for was the way a pen looked. W H Smith said that this was particularly important in pens costing over £10 where the type of pen and its packaging were designed on the basis that these were more likely to be bought as gifts.

5.52. W H Smith said that the consumer had a wide range of prices to choose from. Retailers competed on price on certain pens, particularly in the mid-priced sector, but price tended not to be the main factor in promoting products and suppliers rarely offered products as manifestly cheaper alternatives to stronger brands.

5.53. W H Smith said that it was not aware of any firms which had entered the refillable pen market successfully in all sectors during the last ten years. It said that it knew of a number of well-known manufacturers in other European markets which had considered entering the UK market but which had been discouraged by the levels of investment, particularly in advertising and promotions, that would have been needed to achieve any reasonable degree of success. This was why some manufacturers had chosen to try other routes, eg by manufacturing retailers' own-brand products, or by trying to establish a niche market for a particularly unusual style of product.

5.54. W H Smith added that though suppliers did compete in all sectors of the refillable pen market, choice of product was limited in some sectors, particularly the lower-priced end of the market. Though there were plenty of potential alternative refillable products to Parker, there were few actual alternative supplies at the lower end of the market. For this reason W H Smith had decided to introduce its own-brand product. It now had its own brands in virtually all sectors of the market except the highest-priced sector and had gained a significant share of all the sectors in which its products were available. W H Smith said that it priced its own brands at slightly below those of other

suppliers. It promoted its products through a limited amount of promotions but mainly by in-store advertising.

5.55. W H Smith said that the balance of market power which existed between itself and major suppliers was reasonable. It had always had to negotiate with suppliers on discounts. Whilst accepting that it was in the suppliers' interests to co-operate fully with a major customer of the size of W H Smith, it said that it had never found itself in a position where it could actually impose terms. Whilst the larger suppliers had greater negotiating strength, discounts did not vary greatly from supplier to supplier.

5.56. W H Smith added that it stocked a wide range of brands and had no objection in principle to carrying a wider range of brand, though there would be space shortages in its smaller stores. Manufacturers had enormous opportunity to sell their products to W H Smith. Conversely, if a major manufacturer such as Parker refused to supply its products, W H Smith's reputation as a pen retailer would suffer enormously. As to possible influence on price or design of a product, W H Smith said that although manufacturers did sometimes discuss with W H Smith the design and pricing of a particular product, often before its launch, its views were not always acted upon. W H Smith also discussed some of its own promotions with manufacturers, eg its 'back-to-school' promotion and its Christmas catalogue. In some instances it received financial support from suppliers for its advertising campaigns.

5.57. W H Smith said that it installed its own display units and fixtures. Display space and content were decided centrally. Allocation of space between brands was decided upon after consideration of the size of the market and the sales potential for each individual brand. W H Smith added that some suppliers also provided consultants on a limited seasonal basis, usually before Christmas in the larger shops. Normally consultants would be expected to try to sell their own brand, but W H Smith stipulated that if a member of the public wished to buy another brand of pen on display he should be assisted in his selection.

5.58. W H Smith said that its concerns about the merger were that it might give Gillette the opportunity to remove some of the overlap between Paper Mate and Parker products, allowing it to concentrate its advertising and promotions more effectively and making it more difficult for other suppliers to enter the lower-priced market and so restricting consumer choice in this market. Suppliers of medium-priced refillable pens (over £20) were unlikely to want to enter the lower end of the market because of the possible harm this might do to their brand image. W H Smith was also concerned that pressure could be put on its own brands. Other than Paper Mate, W H Smith own brands were likely to remain the only significant competitors to Parker in the £2.50 to £20 sector. If Gillette decided to promote and sell Paper Mate products at discounted prices, lower than W H Smith own-brand prices, this could serve to squeeze these own-brand products out of this sector of the market and leave Gillette brands as the only ones of any significance in the market.

House of Fraser Stores Ltd

5.59. House of Fraser Stores Ltd (House of Fraser) has 62 stores throughout the country. Approximately 30 of the stores, mainly those located in the larger towns, sell writing instruments. All buying is done centrally. House of Fraser said that it concentrated its sales on the under-glass quality end of the market rather than through disposables, though it did sell some cheaper refillable pens in its general stationery departments, where Parker was its only blister card supplier. Its under-glass range started at about £20 with the majority of its purchases falling within the £40 to £50 price range. These included both Parker and Waterman products.

5.60. Under-glass pens were displayed at purpose-built counters typically characterized by a pen island. These were usually located in the stationery departments but in more recent developments they tended to be sited more within the general gift areas. House of Fraser said that it now developed and designed most of the pen display cases and display areas within its stores. Previously much of this work had been undertaken by pen suppliers which were able to influence the allocation of display space. House of Fraser had taken it over to retain control of the design and content of the display area. House of Fraser said that it decided centrally how to allocate space to individual suppliers within

a particular store. Allocation depended on the grade and profile of a particular store but did allow the store manager a certain amount of flexibility.

5.61. Suppliers were allowed to display their brand names in their display areas and were charged for space on a pro rata basis irrespective of the position. House of Fraser said that it was delighted if suppliers provided full-time consultants though this was now quite rare. There was, however, a large influx of temporary consultants in the stores in the period leading up to Christmas. Consultants did not wear badges to identify their employer though they were naturally expected to sell mainly their supplier's product. Consultants competed vigorously with one another. Generally pen islands were of a sufficient size to accommodate a consultant from each brand on display if that was deemed appropriate.

5.62. House of Fraser thought that the market for quality writing instruments was becoming more aggressive and more promotional. In its view, this was coupled with a return to consumer appreciation of the traditional values of writing with a fountain pen and an increasing perception that a pen was a desirable object. Manufacturers competed strongly with each other through underwriting various promotional campaigns. Retailers also were keen to offer promotions, usually in concert with manufacturers. House of Fraser said that negotiating power between retailers like itself and manufacturers was finely balanced; some brands could exert more power than others. House of Fraser said that it had introduced new quality products into its range and had discontinued others. It believed that there were sufficient manufacturers in the quality pen market for it to offer a comprehensive choice of product. While consumers had considerable brand awareness, the price they were prepared to pay was a major factor and within that they would look at the whole range.

5.63. House of Fraser believed that the proposed merger, combining the Parker and Waterman brands, would create a very powerful supplier with which the retailer would have to negotiate. Whilst House of Fraser controlled the display space, Parker/Waterman could exert their market power by insisting that both their products be displayed side by side or that they had the best site in any new outlet, or in the redesign of an existing outlet. There was a danger that the combined group would offer greater discounts with which other suppliers could not compete and which might squeeze them out of the market. House of Fraser added that it did not see Gillette handling the Parker and Waterman brands separately indefinitely. Initially Parker and Waterman would specifically target their marketing on price points so that the two brands did not compete directly. House of Fraser considered that such moves were unlikely to affect consumer choice.

Selfridges Ltd

5.64. Selfridges Ltd (Selfridges) stocks one of the widest ranges of writing instruments amongst UK retailers, including the Waterman, Parker and Paper Mate brands. Selfridges said that the majority of its pens were sold under glass: disposable pens accounted for a very small proportion of its total sales although it also sold refillable pens and sets in blister packs, from self-service stands, up to a value of £25. Selfridges said that it sold its under-glass pens from a pen island situated at the front of its stationery hall. Parker had a separate island dedicated solely to Parker products which reflected Selfridges' standing as its top retail outlet world-wide.

5.65. Selfridges told us that it designed and owned the fixtures at its pen islands and charged suppliers a capital contribution depending on the amount of space they occupied; Parker paid the total cost of its island. On its island, Selfridges decided the space allocated to individual suppliers and charged accordingly. Suppliers were allowed to fit their own corporate logos into uniform signs in the display cabinets. Each supplier had its own full-time demonstrators and additional part-time staff in the period before Christmas, usually identified by their company badge. Demonstrators competed with one another but they also covered for each other and sold each other's products recognizing, in Selfridges' view, a necessary degree of mutual support.

5.66. Selfridges said that it did not see itself as being in direct competition with specialist pen shops as their appeal was to the specialist buyer. Pens were seen as competing more with other gifts available in the store than with pen displays in other department stores.

5.67. Selfridges said that competition amongst suppliers in the under-glass market was vigorous. Competitive pressures had led several major suppliers to develop similar products, relying on brand loyalty to increase their market share. Suppliers also competed through advertising, promotions and discounts to retailers. Selfridges said that it constantly pressured suppliers for better deals. Suppliers realized that the more display space they had the more pens they would sell. Discounts could vary from brand to brand by as much as 15 per cent.

5.68. Selfridges said that though entry to the market was possible, a new product had to have a degree of originality if it was to survive. If Selfridges gave space to a new supplier in its display it insisted that the supplier had a demonstrator to show its products; even if a product was known, a demonstrator was still needed to help consumers choose between the various brands on display. While a new customer might be merely swayed by price, brand loyalty was very important to existing users.

5.69. On the proposed merger, Selfridges said that it was concerned that future rationalization by Gillette of the Parker and Waterman ranges would inevitably affect Selfridges' business. Gillette might decide to concentrate Waterman's range of products at the upper end of the market (over £75) and Parker's in the medium-price range. Selfridges believed that if this were the case Parker's brand loyalty was such that if its customers were denied the opportunity of purchasing a Parker pen in the £100 price range, they would be unlikely to buy another brand and would instead settle for a £75 Parker. Selfridges would, therefore, see the value of its sales decline in an important sector of market.

5.70. Selfridges was also concerned that Gillette would have a greater share of Selfridges' business and could negotiate from a position of greater strength, and that, if the Waterman and Parker sales forces merged, neither the retailer nor the consumer would obtain the present quality of service.

Ryman Limited

5.71. Ryman Limited (Ryman) is a stationery retailer with 98 stores throughout the UK. Ryman said that while it sold both refillable and disposable pens its sales were predominantly of disposable pens. Ryman said that it sold 17 brands of refillable pens mostly in the £2 to £10 range. It had also introduced its own range of pen and biro sets selling between £5 and £15. Ryman sold refillable pens up to £15 in value in blister packs on open sale in most of its shops. Above that price, pens needed to be kept under glass for security. Ryman said that under-glass was a separate market which it was not keen to enter because sales would not justify the extra security or the need for additional store space for display cases.

5.72. Ryman told us that it did, however, sell refillable pens under glass at its six largest Central London stores and at its Oxford store, though it added that these sales represented only a very small part of its total sales. Ryman did occasionally have Parker demonstrators at these stores in the four weeks leading to Christmas. Ryman said that there was competition between brands in all sectors of the market. At the bottom end (under £5) refillable pens competed with disposables. At the top end (under glass) the market was particularly brand-driven with the customer usually specifying a particular brand and competition being more on range and choice than on price. Ryman added that the Parker brand had a particularly strong following in this area, partly because its products were also well represented at the lower end of the market.

5.73. Ryman told us that it tended to follow the manufacturers' recommended retail price on most products, as did most large retailers. Ryman was able to negotiate discounts from suppliers throughout its range, based on turnover. Predictably negotiations were hardest with upper market suppliers where Ryman's sales were most limited.

5.74. Ryman said that it did not expect the merger to have any adverse effects on product availability, choice and prices in the refillable pen market. There was a sufficient number of pen suppliers at all price levels for fair competition to continue. Ryman believed that at the lower end of the market there were enough manufacturers of refillable and disposable pens to enable it to select the right range at the right terms. Ryman said that although the merger would mean that all of its blister packs, apart from its own brand, would come from one supplier, it might benefit from a single point for ordering and deliveries. Ryman could, however, be disadvantaged if the merged company

decided to change its existing terms. If that happened, Ryman would have to decide whether to continue sourcing all its supplies from Gillette or to go to other equally acceptable alternative sources such as Sheaffer and Cross.

5.75. At the upper end of the market Ryman considered that even if Gillette rationalized the Waterman and Parker ranges it would still be able to come up with a range of pens which would satisfy all Ryman's needs. Ryman said that it was not, however, overly concerned at likely events at the upper end of the market because of its slight interest in that market. Ryman added that it currently dealt entirely separately with Waterman and Paper Mate; separate discounts were negotiated with each.

Pencraft Limited

5.76. Pencraft Limited (Pencraft) has five specialist pen shops located in the West End and City of London. Pencraft stocks 18 different brands of pen and 17 brands of refill, including Parker and Waterman, which it said were amongst its most popular brands of pen. Most of its pens are sold under glass, with sales in the £30 to £50 band accounting for half its turnover. Sales of disposable pens accounted for a very small percentage of its sales. Pencraft said that it usually had one or two demonstrators within each shop at any one time. These were provided by the pen suppliers to promote their products and paid for on a 50:50 basis. Pencraft added that demonstrators had strict instructions that if a customer was not interested in their supplier's products they would try to sell other companies' products. Pencraft said that it regarded its main competitors as other specialist pen retailers and the main London department stores.

5.77. Pencraft said that it competed with other retailers mainly through advertising and special in-house offers, eg free engraving and gift wrapping, rather than on price. The majority of retailers priced according to the supplier's suggested retail price, with slight variations. Pencraft believed that it operated in a competitive market.

5.78. Pencraft believed that a merger would have adverse effects on product availability, choice and prices in the refillable pen market. A merger would put tremendous pressure on retailers as it would allow Gillette products to occupy large areas of selling space which would enable it to squeeze out smaller competitors.

5.79. In the medium- to high-price range of pens in particular, a combined company would be in a dominant position and could dictate policy and discount terms. Consumer choice would be further reduced as the merged company would most likely rationalize its products.

5.80. Another major concern was the gifts market where the retailer would not be able to compete on terms or discounts with the merged company's in-house gift marketing operations. Pencraft felt that this would constitute unfair trading and would adversely affect the gifts trade of other pen suppliers.

Penfriend (London) Limited

5.81. Penfriend (London) Limited (Penfriend) retails and repairs refillable writing instruments, mostly priced at the upper end of the market. Penfriend has two shops in the West End of London and a workshop in the City of London where it repairs and restores refillable pens. Penfriend said that it employed its own staff and did not use suppliers' demonstrators in its shops. It stocked both Parker and Gillette (Waterman) products amongst its seven brands of refillable pens; vintage pens accounted for nearly one-third of its sales. All its pen products were sold under glass. Penfriend said that it did not advertise but competed with other retailers mainly through reputation and recommendation of what it considered to be its unique specialist services and special in-house offers, rather than on price. The majority of retailers priced according to the suppliers' suggested retail price, with slight variations.

5.82. Penfriend opposed the proposed acquisition on the grounds that it was likely to lead to product rationalization and adjustment of prices, which would be to the detriment of the consumer

and the industry. At present the consumer enjoyed a reasonable choice in all ranges of products. A merger would lead to a reduction in choice, particularly at the premium end where both companies competed vigorously on pricing and new product designs. Existing competition between rival products would be eliminated denying the public continuity of previously successful products. The retailer could be further disadvantaged by the merged company using its market power to restrict retailers' ability to negotiate discounts.

5.83. Penfriend thought it unlikely that existing competitors would be able to compete effectively with a merged company on price. Gillette would be the price leader and other companies would have to follow. New competitors might enter at the lower end of the market but new entry was unlikely in other sectors of the market, where considerable financial resources were needed if a new entrant was to succeed.

5.84. Penfriend also thought that Gillette's control of Waterman had stifled innovation and initiative within that company and damaged its brand image. It was concerned that a merger might have the same effect on Parker, thus depriving the industry of the new products it needed to offer the consumer and on which it depended if it was to flourish.

5.85. Penfriend considered that Waterman's brand image had suffered since being taken over by Gillette's heavy-handed approach, and it feared that this might also happen to Parker, one of the most respected and reliable pen companies. Penfriend also considered the price offered for Parker by Gillette to be high and this, in its view, would lead to job losses from rationalization and a cut-back in research and development in both companies.

Metro Pens

5.86. Metro Pens, a specialist pen retailer operating out of the Metro Centre, Gateshead, said that Gillette and Parker already held dominant positions in the writing instruments market. At present it was possible for retailers to balance dealings with one company against those of the other. The consumer benefited from competition between the two companies on price and product, whilst the retailer benefited in that neither company was able unfairly to restrict the retailer's activities by threatening to withhold its own products or promotions.

5.87. Metro Pens thought that a merger would not be in the interest of the retail trade or the consumer. A merged company would be able to dictate the amount of space and the layout in shops displaying its products. Ultimately it could control retailers' prices and restrict consumer choice by rationalizing its products. Retailers which did not comply could find demonstrators/consultants withdrawn from their shops and discounts suspended. Metro Pens added that it was also concerned that the last major British pen manufacturer would go back into foreign ownership.

John Menzies (UK) Limited

5.88. John Menzies (UK) Limited (Menzies), a major high street retailer, said that there was at present a wide range of quality branded refillable pens at prices to suit every consumer's needs. Suppliers competed strongly through promotions, investment in showcases, the training and placement of demonstrators and consultants, discounts to retailers, and in the development of new products.

5.89. Menzies thought that a merger would affect competition in the lower end of the market for refillable pens, priced between £2.50 to £15.00, and would lead to a reduction in consumer choice within that price range.

5.90. Menzies said that it had tried to encourage other suppliers to enter this market but had met with little success. Suppliers of under-glass products were reluctant to enter this market as they felt it might harm their brand image: suppliers of disposable products did not have the necessary brand image needed for success in this market.

John Lewis Partnership

5.91. John Lewis Partnership (John Lewis) has 22 department stores throughout the UK. John Lewis said that it operated a central policy for displaying writing instruments within its stores and believed firmly in controlling the presentation and layout of merchandise in its shops. The amount of space it allocated to each supplier depended on the supplier's sales.

5.92. John Lewis said that it designed and installed its own display cabinets. It did not charge suppliers for display space, nor did it negotiate with suppliers on the positioning of their products with the cabinets.

5.93. John Lewis added that it did not use outside consultants/demonstrators but preferred to train its own staff. It also said that it did not participate in special promotions by suppliers, nor did it use point-of-sale promotional material. It did, however, occasionally participate in joint financial promotions with suppliers which, for example, allowed it to offer gift sets at an advantageous price compared with the same items bought separately.

5.94. John Lewis said that a combination of the Gillette and Parker brands would together account for more than half of its sales of refillable writing instruments. John Lewis believed that as its experience was probably representative of other retailers a combined operation would be in a position to dominate the market. This would give Gillette the power both to reduce the choice available to the customer and to exercise a powerful influence on pricing. John Lewis thought there was, in both respects, reason to believe that the consumer could well suffer as a result of the merger.

5.95. John Lewis added that though there were a number of other brands of refillable writing instruments available in the market, several of which it stocked, none of these would be in a position to challenge the dominance of a combined Parker/Gillette. Equally it would be difficult for any new company to set out to do this. The barriers to entry to this market related not so much to tooling-up costs and the like, but to the fact that in this field the consumer attached considerable importance to the image and reputation of a product and therefore brand name and brand loyalty were very powerful. For this reason the market shares of the main brands changed only slowly over time.

Harrods Limited

5.96. Harrods Limited (Harrods) said that the main competitive pressures in the refillable pen market were for perceived image, rising quality and price. Harrods said that it did not foresee any concerns regarding choice or price as a result of the merger.

Argos Distributors Ltd

5.97. Argos Distributors Ltd (Argos) said that if Gillette were to succeed in its bid for Parker it might move Parker up-market slightly in order to minimize overlap with Paper Mate but to maximize sales of its products. Argos considered that if this led to reduction in the number of individual products available in the volume end of the market its business would undoubtedly be affected.

Other retailers

5.98. A further 13 major retailers responded to our questionnaire request for further information. All respondents thought that there was a reasonable choice of product amongst the different categories of writing instruments available in the UK. Asked to rank in order of importance a number of factors which might influence their choice of supplier, brand name was chosen as the most important, followed by price, quality of product, terms and conditions of supply and, lastly, innovative technology and design. Over half the retailers said that suppliers made no attempt to persuade them to favour their own branded products over others. Of the retailers which took an opposite view, four

said that suppliers competed for their business through normal sales techniques, eg discounts and special offers, and did use undue pressure. Another retailer said that it rewarded the supplier which was prepared to pay the highest price with the most display space, the best position and the largest stock order. The remaining retailer did not expand on its reply.

5.99. Nine of the retailers thought that the proposed merger would not affect product availability, choice, or prices in the refillable pen market. One of these retailers added that though it was unconcerned by the merger at present, since Parker concentrated on refillable products and Gillette on disposable products, it might change its opinion if Gillette decided in the future to promote its individual brands in more than one sector of the market. The remaining four retailers thought that the merger could adversely affect choice, prices and credit terms. One added that it was concerned that it might have difficulty in controlling its business effectively if a substantial part of its writing instruments was provided by just one supplier; another retailer said that Waterman's service to retailers and customers had deteriorated since its acquisition by Gillette and it feared that the same might happen to Parker.

Office suppliers

Viking (Direct) Ltd

5.100. Viking (Direct) Ltd (Viking) is a mail order company, dealing primarily in office supplies and selling approximately 3,000 product lines to small to medium-sized businesses throughout the UK. Sales of disposable pens and refills are an important part of its business. Viking sells both Paper Mate and Parker brands of refills but only one (Paper Mate) brand of refillable pen.

5.101. Viking said that there were no strong competitors in the UK refill market and consequently little competitive pressure. Despite Parker's refills patents expiring, no new entrants had successfully penetrated the market. A merger between Gillette and Parker would, however, give one company virtual control of the lower end of the refillable pen market. Viking thought that such a concentration of market power was likely to lead to prices being increased, particularly for refills.

Club Group

5.102. Club Group is a trade association of 15 wholesalers in the UK and Ireland which distribute stationery products and toys from 15 warehouses to over 30,000 retail outlets. Club Group co-ordinates the marketing on behalf of its members and negotiates collectively with suppliers. The Group produces an annual catalogue on behalf of its members together with smaller 'back-to-school' and Christmas catalogues. Writing instruments are strongly featured in the catalogues, generally towards the lower end of the price range though it also lists fountain pens up to a value of £70.

5.103. The Group said that the core of its business was with small independent stationers though it also dealt with department stores and several multiple retail groups. The Group said that it claimed to give the independent retailer the opportunity to compete on price with any high street multiple store. If, for example, W H Smith was carrying out a major promotion the chance was that the Group would have probably negotiated an offer on the same or a similar product that would enable its customers to compete on an equal basis.

5.104. The Group said that the majority of the refillable pens it offered were Parker as this was the brand that its customers asked for. It had tried to introduce Waterman but this had not been successful. At the lower end it also stocked Paper Mate refillable products. The Group said that at the lower end of their sector of the refillable market Parker and Paper Mate did not compete strongly with each other; Paper Mate had concentrated on roller ball and ball point pens as did Parker but the latter was supreme in fountain pens. The Group added that any new entrant to the UK refillable pen market would have to be prepared to commit considerable marketing resources to promote brand awareness in all sectors.

5.105. The Group considered that a merger between Gillette and Parker would not affect product availability, choice or price. Provided Parker's philosophy and management style remained, the merger could be beneficial. Gillette and Parker were both supporters of strong brand names and Gillette was likely to continue to support the strong Parker brand. Gillette might also be prepared to invest in new ranges and Parker might benefit from such an injection of funds to stimulate its business. The Group said that its main fear was that Parker might be sold to a bidder who did not understand the market; with Gillette it had no such fears. The Group added that whilst wholesalers might consider themselves more vulnerable to a single supplier, they had to respond to a changing market. In the Group's case it considered that its overall strength would increase with one supplier with any loss in competition being minimal.

Spicers Ltd

5.106. Spicers Ltd (Spicers), a wholesaler of office products, said that it chose its pen suppliers on a variety of factors, mainly brand awareness, products offered, unique product features and discounts. It included Paper Mate, Parker, Waterman and Cross products within the range of quality refillable writing instruments it offered. Spicers considered that quality writing instruments were not subject to the same price pressures and reduced margins as disposable pens. Spicers said that it had no concerns about the merger because both parties had strong distinct brands which were likely to continue.

Viho Europe BV

5.107. Viho Europe BV (Viho), a Dutch trading company and an independent distributor of office machinery, computer peripherals and office supplies throughout the EC, expressed concern about the proposed merger on the grounds that it would ultimately result in more price-fixing practices and an absence of intra-brand competition. Viho alleged that Parker had a highly vertically-integrated structure through which it could maintain national market borders for its products together with artificially high and different prices. Viho told us that Parker subsidiaries bought the company's products from the manufacturing companies in France, the UK and the USA at lower prices than were available to independent distributors. The independent distributors of Parker products were obliged to place their orders through Parker Pen UK which itself distributed through its subsidiaries. Viho believed that Parker's subsidiaries, in and outside the EC, were obliged to refer buyers from any other country back to the Parker subsidiary which had responsibility for the home country of the buyer and were not allowed to supply buyers outside their respective domestic markets, so preventing Parker's subsidiaries from competing among themselves.

5.108. In Viho's view these practices meant that independent distributors in the UK could not freely choose to buy Parker products at better prices available elsewhere, nor could they compete against Parker because the prices at which Parker sold to its subsidiaries were not available to them. Viho believed that the proposed merger would strengthen Parker's already leading position within the European pen market and would ultimately result in increased prices for Parker and Gillette brands within the UK and other member states' markets. Viho concluded that the proposed merger would not be in the public interest.

Other wholesalers

5.109. Six other wholesalers completed and returned our questionnaire requests. Amongst these wholesalers, brand name was agreed to be the most important factor determining their choice of supplier, followed by quality and price. Five of the wholesalers said that they had a reasonably wide choice of supplier in all categories of refillable writing instruments, though another said that there was an insufficient choice of low-cost unbranded ball point refills. Asked whether the proposed merger was likely to have any adverse effect on choice, product availability and price in the refillable pen market, three wholesalers said that it would not. One of these wholesalers said that on an international scale there were alternative brands and it believed that Gillette management would continue to differentiate between Parker and Paper Mate brands. The other three wholesalers

disagreed: two did not expand on their answers, but one said that the merger would restrict freedom of choice and could adversely effect terms to wholesalers. One of these three also added that Gillette had a habit of spoiling the companies it acquired, Waterman had lost much of its up-market glow and it would not want the same to happen to Parker.

Retail associations

British Promotional Merchandise Association

5.110. British Promotional Merchandise Association (BPMA) represents just under 800 companies involved in the business-to-business promotions market. BPMA's journal *Promotions News* lists some 280 products offered by its members ranging from address books to wines and spirits. Writing instruments are offered by a significant number of members: about 110 offer ball point pens, 30 felt- or fibre-tip pens, 30 fountain pens and 10 tailor-made pens. Most of these products would be overprinted with the client's name or personalized in some way.

5.111. BPMA told us that most of the writing instruments its members offered in their catalogues were disposables or low-priced refillable pens. Members had a number of pen suppliers to choose from; all offered discounts off their retail price lists. BPMA said that the Parker brand had a very high perceived value within the market-place: some of its members were major Parker customers. Members were not, however, able to undercut the prices Parker charged to business clients who dealt direct with the company through its own in-house gift sales operation.

5.112. BPMA said that its members had no concerns about the merger and its effect on their future supplies. Most of its members' business with Gillette and Parker was compartmentalized, with Waterman at the top end, Parker in the middle and Paper Mate at the bottom; it did not see this situation changing as a result of the merger.

6 Conclusions

The merger situation

6.1. This reference concerns the proposed acquisition by The Gillette Company (Gillette) of Parker Pen Holdings Limited (Parker), a company incorporated in the UK.

6.2. The reference was made on 5 October 1992 under the Fair Trading Act 1973 (the Act) (see Appendix 1.1). Under it we are required to investigate and report whether arrangements are in progress or in contemplation which, if carried into effect, would result in a merger situation qualifying for investigation as defined in section 64(8) of the Act, in that enterprises carried on by or under the control of Gillette would cease to be distinct from enterprises carried on by or under the control of Parker. For this purpose the reference prescribes the test in section 64(1)(b) of the Act (the assets test) and provides that, if we find this test or the alternative test in section 64(1)(a) (the market share test) satisfied, we shall exclude the other from our consideration.

6.3. As described more fully in paragraph 2.25, the offer made by Gillette and accepted by Parker, subject to clearance by the regulatory authorities, valued Parker at £285 million. The gross value of Parker's world-wide assets as at the time of its last balance sheet in February 1992 amounted to £115 million. Apart from a loan repayment of £12 million due in March 1992 we know of no significant change that would materially reduce that value.

6.4. We therefore conclude that the assets test is satisfied and that, if the arrangements referred to in paragraph 6.2 are implemented, a merger situation qualifying for investigation will be created. As the merger has not been implemented, the second question in the terms of reference relating to the actual creation of a merger situation (Appendix 1.1) does not require an answer. We have therefore to consider whether the creation of this merger situation may be expected to operate against the public interest.

The companies

6.5. Gillette is a multinational company based in the US. Its core product lines are razors and razor blades but it also sells a range of other consumer goods. Its well-known brands, besides Gillette, include Braun (electrical goods), Oral-B (dental care products) and Liquid Paper (correction fluids).

6.6. Gillette entered the writing instruments business by acquiring Paper Mate in 1955. Paper Mate products are manufactured in California and in a number of developing countries and by sub-contractors in Europe and Japan. In 1987 Gillette acquired Waterman SA (Waterman), the leading French pen manufacturer, which has two manufacturing centres, at Nantes and Chamonix. Neither Paper Mate nor Waterman manufactures or assembles writing instruments in the UK.

6.7. The Parker Pen Company was established in the 1880s in the US and 'Parker' has been a leading world brand in the writing instruments market for many years. Parker products are manufactured in Wisconsin (the original site), Newhaven in the UK and Meru in France.

The proposed merger

6.8. In 1976 The Parker Pen Company acquired a majority interest in Manpower Inc (Manpower), a company providing temporary staff to a wide range of organizations. Manpower grew rapidly and in the early 1980s became the predominant part of the Parker business. In 1986 the writing instruments business of The Parker Pen Company, which had been performing poorly, was acquired by a consortium of management and other investors primarily based in the UK and became a UK company, Parker Pen Holdings Limited. During 1987 and 1988 proposals for the sale or market flotation of the company were considered but stock market conditions were not propitious and these were not pursued. In 1989 certain investors wished to realize their investment in Parker; the company was refinanced and it was agreed that in 1992 shareholders would be provided with an opportunity to realize their investment. In January 1992 offers for Parker were invited and after negotiation a conditional offer of £285 million made by Gillette was accepted and an Agreement on the sale announced on 10 September 1992.

6.9. For Parker the proposed merger provides the promised opportunity for certain institutional shareholders to realize their investment. Gillette told us that the merger provided a unique opportunity to expand its international interests in the writing instruments sector by broadening its range, particularly in mid-range refillable instruments. It would also give it a significant market presence in a number of countries where its distribution arrangements and market shares were relatively weak.

The market for writing instruments

The size of the market

6.10. The term writing instruments covers a wide range of products, including both disposable and refillable types, ranging from standard wooden pencils, felt-tip pens, specialist drawing and marking instruments and mechanical pencils to the various types of ink-filled instruments: ball point pens, roller ball pens and fountain pens.

6.11. The writing instruments market in the UK, whether taking disposable and refillable instruments together or separately, is one for which few statistics are collected and such as exist are not comprehensive. We have built up our picture of the market from official statistics, information from the parties and other pen suppliers, wholesalers and retailers and from independent market surveys. Parker provided us with a survey which it had commissioned in 1991 from a market research company, Market Measures, which concentrated mainly on the sector of the market retailing at £2.50 or above. We have found this survey helpful in looking at the market for refillables. Its estimates, which are broadly consistent with other independent market research estimates, suggest a total UK market for writing instruments as a whole (defined to exclude wooden pencils and crayons) of £226 million at retail prices, split almost equally by value between refillables and disposables, although, given relative prices, far larger numbers of disposables are sold.

The product

6.12. All the main types of writing instrument come in both disposable and refillable forms. The two are usually built round the same type of mechanism and will be to some extent in competition (see paragraph 6.18). By far the greater number of sales of writing instruments are of pencils and cheap disposable ball point pens. Within the pens sector the roller ball (which uses a ball point type mechanism with liquid ink) has gained market share since its introduction in the early 1970s, and fountain pens have staged a revival over the last ten years.

6.13. Apart from the introduction of the roller ball, there have been no major technical advances in recent years in writing instruments. The main features of present day fountain pens, for example, go back many years. Current research appears to be towards improving mechanisms and ink quality

and delivery. Products at all price levels appear to be efficient and reliable. The production processes are comparatively simple. Parker's high-volume lines, the Jotter and the Vector, are produced by a continuous process; their other refillables, mainly more expensive models, are all hand-assembled. Machinery and components are readily available.

6.14. Prices for writing instruments range from a matter of pence for pencils and disposable ball point pens to about £200 for a top-of-the range fountain pen (setting aside a handful of sales of yet more highly-priced prestigious gold and silver pens and mechanical pencils). The cheapest pens, both disposable and refillable, are functional, although style and appearance play some part. At higher levels a range of fountain pen, roller ball, ball point and mechanical pencil is often offered in matching finishes. There is much emphasis on style and the range of finishes, for example enamels, lacquers, and gold plating. We regard all these different types of writing instrument as forming part of one market.

The suppliers of writing instruments

6.15. There are a large number of suppliers to the UK market, a number of which are described more fully in paragraph 3.31. There is a wide range of choice at all price levels but no one at present covers the whole range of disposables and refillables. In disposables the main names in the UK are Bic and Staedtler, with Paper Mate, Pentel, Pilot and Berol as other significant suppliers. In refillables Parker, Waterman and Sheaffer have models covering the whole price range. At the lower end of the price range Paper Mate is also represented while in the higher-priced sector there are a number of other well-known brands, including Cross, with a full range of models at all price levels. Recent entrants include Elysée, Diplomat and L'Plume, while an older brand, Montblanc, has established a considerable presence at the higher-priced end of the pen market. Dunhill and other well-known names like Cartier and Yves Saint Laurent have used a brand already well-known in other areas to establish themselves in the prestige end of the market. A few brands like Tombow have established a niche for fashion or novelty pens. Some manufacturers which have a strong position in their home markets, such as Pelikan in Germany, also have a presence here. Some multiples, notably W H Smith (Retail) Ltd (W H Smith) with its Signature and Messenger pens, have established own-label brands in the lower- to medium-price bands, which are currently also supplied from overseas.

6.16. Parker does not manufacture disposables but produces a comprehensive range of refillable pens—ball point, roller ball and fountain pens—from a recommended retail price of about £3 upwards and a range of mechanical pencils, some of which are sold in sets with pens. It is strong in the lower end of the refillable market with its Jotter and Vector ranges. Of Gillette's two brands, Waterman also produces a full range of refillable instruments but its sales in the UK are relatively more concentrated at the higher end of the market. Paper Mate is an important supplier of disposable pens mainly for business use; 70 per cent of its sales revenue comes from disposables. It also sells a decreasing range of refillables at the lower end of the refillable price range, currently up to about £10 retail price.

The market for refillables

6.17. As Parker produces no disposables, in examining the proposed acquisition we are primarily concerned with the potential effects on the market for refillable writing instruments. We looked first at how far refillables can be seen as a separate market from disposables and whether the refillable market itself should be divided into several distinct sectors.

6.18. The cheapest refillable pens can be bought for little more than £1; at this price they are in competition with disposables and many may be treated as disposables by their users. There is no clear price point beyond which consumers distinguish refillables as a distinct product; evidence from various sources during the inquiry suggested that it would lie between £2 and £5. However, many of the disposables and cheap refillables below this level are efficient, well-designed and attractive. They provide competition for the lower-priced models in the more distinct refillables market supplied by Parker and others. Following the approach in market research carried out for Parker referred to in

paragraph 6.11 we have broadly equated this refillables market with the market for writing instruments priced at £2.50 or above.

6.19. In discussion with us suppliers tended to divide the refillables market into low, medium and higher-priced segments, but these divisions are not clear-cut and are not defined by distinct price points nor by any clear differences in appearance. There is no great difference in technology as one moves up the range of pens, but more expensive pens have better quality nibs, better finishes and better mechanisms. This is perhaps most important for fountain pens, which often have a gold nib. On the other hand there is no difference between the refills supplied for cheap and expensive instruments in a brand range; for example, all Parker roller ball pens use the same refill and ink supply mechanisms, as do all their ball point models.

6.20. There is, however, an important distinction in the retail sector, based on selling methods. The more expensive refillable pens are kept and displayed under glass and sold by counter staff, while the lower-priced models are on open display, usually presented for self-service on racking in blister packs, which sometimes incorporate presentation boxes. The price point from which pens are kept under glass varies according to the outlet. It may start at £10 or at a somewhat higher level. In most outlets instruments costing £20 or more are displayed in this way.

6.21. All the main suppliers provide refills for their own brands of refillables. In some cases a refill can be used in other brands and a number of suppliers use and supply a ball point refill interchangeable with Parker's. In addition, Parker sales are sufficiently large to make it worthwhile for some multiple retailers to stock as alternatives cheaper own-brand refills. Parker also told us that its roller ball refill is technically different from others. For fountain pens each supplier again provides its own cartridges but an international cartridge is available that will fit a number of brands, including Parker. Whether alternatives are available or not, most customers looking for a refill for a branded pen will ask for a refill of the same brand and sales tend to reflect market shares for pens. It seems sensible therefore to regard the refills market as directly related to the pen market.

The market by trade channel

6.22. Writing instruments are sold into three main channels:

- (a) Largest by value is the retail market with most sales for personal use by the purchaser or as a gift; it is estimated that almost three-quarters by value of sales of pens with a recommended retail price of £2.50 or above are through the retail market.
- (b) Secondly, there is the business gifts market, supplied either direct or through business gift houses; here there are substantial purchases of disposables or cheaper refillables overprinted with the buyer's logo or slogan, for advertising or promotional purposes. More expensive pens are also bought as personal incentives or gifts, and then compete not only with one another but with a range of other gift items. Overall this sector is thought to take by value almost one-quarter of sales of pens priced at £2.50 and above.
- (c) Finally, there is the business use market, supplied almost entirely through wholesalers. Although the largest sales by number of writing instruments are for business use, these sales are overwhelmingly of the cheaper disposables. Only about 4 per cent by value of pens priced at £2.50 and above are sold into this market.

There is little overlap in demand between these three trade channels and we have therefore considered the position in each separately.

The retail market and methods of marketing

6.23. As noted above, it is estimated that almost three-quarters by value of writing instruments with a retail price £2.50 or above (calculated at recommended retail prices including VAT) are sold through retail outlets. Almost all of these are refillables. The main outlets for refillables are

department stores, estimated to account for about two-fifths of total retail sales by value, and specialized multiples like W H Smith and Menzies, accounting for about one-fifth with a slightly smaller share held by retail stationers, which include chains like Ryman but are more often small independent outlets. Other smaller outlets include pen specialists and jewellers, a wide range of small independent retailers ranging from jewellers to confectionery, tobacco and newsagent shops (CTNs), mail order and catalogue stores; together these outlets cover the full range of pens although focused at different price levels.

6.24. While all larger retailers listed above, and pen specialists and jewellers among the smaller outlets, are supplied direct, smaller retailers and CTNs are usually supplied through wholesalers.

Marketing and promotion

6.25. For the large proportion of pens sold as gifts, the perceived image of the brand is particularly important. This is enhanced by consumer advertising, especially before Christmas. The major part of promotional expenditure, however, is directed at the retail trade, including provision of display cabinets, sales consultants and special promotions. Such promotions are particularly important at Christmas and in early autumn (the 'back-to-school' period) when a large proportion of sales take place.

Display arrangements

6.26. As noted in paragraph 6.20, department stores and multiples sell their more expensive pens under glass, ie from closed display counters or cases, staffed by assistants or consultants, and labelled prominently with the names of the brands of pen displayed in them. Some large retailers like John Lewis Partnership (John Lewis), W H Smith and Selfridges Ltd (Selfridges) design and install their own cases and display areas; some of these stores then require a contribution to the cost from the pen suppliers in return for guaranteed display space labelled with the brand name. Some retailers will accept cases which are provided by individual pen manufacturers to the latter's design. These are usually provided free of charge, as long as the cases named for the supplier are reserved for its pens (although we were told that this condition is not always strictly enforced). Other stores will arrange with one of the pen suppliers to design the whole pen-selling area and supply all the cabinets; other suppliers will then be asked to contribute, usually to the retailer, to the cost of the fitments.

6.27. We received a number of complaints from other pen suppliers about the way, it is alleged, the present arrangements already benefit Parker. Parker is often commissioned to design and supply units and other suppliers claimed that these existing arrangements have enabled it to secure more than its fair share of display space and the most favoured locations. There were also complaints that other suppliers had to pay more towards the cases than was justified by the cost to Parker. Parker claimed, however, that it only undertook such commissions at the request of the retailers, that the prices charged reflected the costs of the operation to Parker, and that the retailers and not Parker allocated the space according to the sales potential of each brand. This last point was confirmed by retailers.

Use of consultants

6.28. Pen specialists and pen counters in department stores are frequently manned by staff provided by pen suppliers, described as consultants or demonstrators. These staff are paid for by individual pen suppliers and their main duty is to promote sales of the supplier's pen. Some receive commission as part of their remuneration and some are paid only on commission; commission is only paid on sales of the suppliers' pens. Both Parker and Waterman pay consultants by salary, with some receiving a small additional commission. Consultants are subject to general staff rules laid down by the store, including dress, and are expected to sell other suppliers' pens to meet customer needs. In some stores they operate from the pen supplier's own branded cabinet or island; in others they stand behind their supplier's section of a general pen counter. Consultants sometimes wear a badge or uniform identifying the supplier but frequently wear only a store badge. Some stores do not permit suppliers' badges to be worn. John Lewis does not use consultants but relies on its own trained staff.

6.29. Pen suppliers told us that consultants were largely supplied by them in response to pressure from retailers and in order not to be at a disadvantage to competitors; Selfridges told us that it would not normally accept a new brand unless consultant support were supplied. It was put to us that Parker, with its large share of the retail market, is already able to afford consultants more easily and to deploy them more effectively than its smaller competitors.

Suppliers' discounts

6.30. Suppliers' discounts to retailers are substantial. One major firm's discounts, which we believe to be representative, calculated on recommended retail price exclusive of VAT range from about one-third for smaller retailers to almost 60 per cent for large retailers. In addition, retailers which meet agreed stocking and sales targets can often secure several percentage points more in overriding discounts, usually paid retrospectively. We were told by several suppliers that the level of discounts has been rising in recent years.

Pricing and promotions

6.31. Apart from catalogue and discount houses, most retailers observe recommended retail prices. Promotions are the most usual way of introducing effective price reductions, usually at Christmas or in the 'back-to-school' period, often involving the purchase of a matched set at a substantial reduction on the prices of the individual instruments or offers of a free instrument, for example a free ball pen with a fountain pen.

The business gifts market

6.32. The business gifts market includes purchases by businesses for both incentive and promotional purposes. In selling into this market pen suppliers are in competition not only with one another but with a wide range of alternative gifts. The larger part of the market consists of business gifts offered as staff incentives, personal gifts or mementoes. In this field more expensive pens are in competition with a wide range of items, from holidays and travel vouchers to desk sets, leather goods, wines or crystal, and account for only a small part of sales. The promotional part of the business gifts market is also substantial; it was recently estimated at almost £300 million by Mintel, of which £75 million was accounted for by writing instruments. Pens sold into this sector are mainly lower-priced items which can be overprinted for promotional purposes and are in competition with such alternatives as diaries, key rings or pocket calculators. Most of these promotional pens are disposables. The refillables sold into this market, however, account for almost one-quarter of sales of refillable instruments with a retail price of £2.50 or more. The Parker Vector roller ball has proved particularly attractive for overprinting and Parker has the largest share by far of sales of refillables in the £2.50 to £10 range into the business gifts market, with an estimated four-fifths of total pen sales into this segment of the market.

6.33. Brand perceptions are important in this market, particularly at the upper end, but prices, and the ability to fit the buyer's budget, are more significant determinants of choice than in the retail sector. Many of these business gift sales are handled through gift house wholesalers but more than half of purchases are made directly from the suppliers. Parker has been particularly active and successful in developing direct sales and these now account for over two-thirds of its sales into the business gifts market.

The business use market

6.34. In the business use market (ie purchases by businesses for their own use) the demand is mainly for cheap disposables and competition on price is strong. Sales to this market of pens with retail prices at £2.50 or above are estimated to account for only 4 per cent of sales of refillables. Most sales are made through wholesalers, which expressed little concern about the effects of the merger in this market. Only a small percentage of Parker's sales are into this market.

Entry and prospects of entry

6.35. As noted in paragraph 6.13, the manufacturing and assembly processes are comparatively straightforward and the technology is established. Production can be started on a small scale and pens are shipped to the UK from all over the world.

6.36. Most of the better-known brands in the UK market in refillable pens are long-established; Parker, Waterman, Cross and Sheaffer all date back to the turn of the century or earlier. There are, however, a large number of other brands, many of them well-established in other national markets, particularly elsewhere in Europe, which have a share of the UK market. Montblanc's sales of pens priced at over £50 has increased substantially over the last few years, as a result of what has been described by the industry as an outstanding marketing campaign; it now appears to be the largest supplier of pens selling for more than £100.

6.37. A number of other suppliers (for example Rotring, with a background in technical instruments, and Lamy) have secured sales in the retail under-glass sector, for instruments with distinctive designs. Tombow has also found a niche for pens of a highly distinctive shape. In the £10 to £50 price range Elysée has established a firm presence in the retail market since 1983 with little advertising support. Diplomat and L'Plume are more recent entrants which have established themselves in the last two years. L'Plume, with pens in the £8 to £40 range, originally imported from the Far East, is now being increasingly manufactured in the UK. All these entrants produce pens that compete with the established ranges.

6.38. Some multiples supply own-brand pens. These are usually lower-priced and in blister packs, but we noted that own-brand pens have been introduced in the medium-price segment by W H Smith and sold under glass. These have been making steady progress and now, as shown in Table 3.6, W H Smith's own-brand sales, ranging from the Student pen at £1.95 to the top-priced Messenger model at almost £50, are exceeded only by those of the major brands. In the £2.50 to £10 segment they appear to be the third largest supplier.

6.39. New entrants and incumbents have both taken market share at the medium and upper ends of the retail market, not all from Parker. Parker, however, remains a strong force in the market as a whole, and particularly in the £2.50 to £10 price range. In this price range Waterman is weak and Paper Mate has been declining. The estimates provided to us suggest that Parker holds almost three-quarters of this price segment of the refillables market. This share reflects shares of about two-thirds of retail sales and four-fifths of business gift sales in this price segment of the refillables market. We looked closely therefore at opportunities for entry and increased market share for incumbents in this price segment and the effects of the merger on the position.

6.40. Suppliers and retailers both suggested to us that in order to become established in this lower-priced segment of refillables, particularly in retail sales, a brand reputation in the higher-priced segments was needed, and that it was very difficult to trade up into the refillable market from cheaper disposables. We have observed that both Pentel and Pilot, which are well-established in disposables, have some refillable instruments on sale in this price sector; both told us that with Parker's existing position in the segment substantial promotional expenditure would be needed for a company to establish itself in this part of the market. We have, however, been told of some 30 suppliers, in addition to Parker, Paper Mate and Waterman. Some of these, like Sheaffer, Pelikan, Osmiroid and Platignum, have been in this sector for a considerable time. Others are well-established in the disposables sector, like Pentel and Pilot. We have also noted W H Smith's success with own-brand refillables, and were told of plans by Zebra UK Ltd, a subsidiary of a large Japanese supplier of the full range of disposables and refillables which already markets disposables in the UK, to extend further up the price scale into refillables.

The effects of the merger

6.41. Against this background, although we considered the writing instruments market as a whole, we have focused on the effects of the merger on the refillable market in which Parker operates, and

within this have considered the effect of the merger on the market channels we have discussed above. The proposed merger would bring together three well-known brands in the UK market: Parker, Waterman and Paper Mate. The market research estimates provided by Parker for the year to mid-1991, which we regard as sufficient to provide a broad picture of market shares, suggest that Parker was then the largest supplier of refillable pens to the UK market, with over half of sales of refillables, and particularly well-represented in the lower-priced segment of that market.

6.42. Waterman is a long-established and substantial French-based supplier of quality pens, with an estimated 5 per cent of the refillables market, although weak in the lower-priced segment. Paper Mate is a US-based firm, now concentrating mainly on disposable pens but still with a small share which was estimated at about 2 per cent of the UK market for lower-priced refillables. The proposed merger would thus add only a small amount to Parker's existing market share, but together the three brands would cover all sectors of the disposable and refillable markets and Gillette would gain in particular Parker's share of the £2.50 to £10 price segment.

6.43. Opposition to the proposed merger came mainly from competing suppliers and some retailers. Most pen suppliers which gave us views expressed concern that a merged company would have a dominant position in the UK market for quality pens and would be able to exploit various marketing practices to secure display space and sales at the expense of competitors. We noted in particular the concerns expressed about a combined company's ability to use its marketing strength with retailers to secure favourable display space, provide consultants and target promotions to weaken competitors. It was suggested that this would lead to reduced choice and possibly some increase in prices. It was also argued that Gillette would also be able to influence purchasing by retailers by the use of aggregated discounts or other inducements. Some retailers were worried, on the other hand, that the possession of three brands spanning the entire range would enable Gillette to exert pressure, even on larger retailers. Some feared that Gillette, by targeting particular product areas and by rationalizing overlaps, would affect choice. Additionally, W H Smith was concerned about possible pressure on its own and other retailers' own brands if the merged company were to instigate price reductions through other outlets to squeeze these own brands out of the market, again reducing choice. Some, but not all, wholesalers and mail order companies were concerned about a reduction of competition, particularly in the lower-priced segments. Business gift houses which gave evidence were not concerned about the effects of the proposed merger.

6.44. Gillette told us that, although there would be some rationalization of marketing and administration, they proposed to keep and promote the three brands separately. In line with its worldwide strategy it was already taking steps to concentrate Paper Mate sales on cheaper high-volume disposable pens, with a few refillable products costing no more than £10, and this process would continue. Waterman had only a small share of under-£10 sales and Gillette's aim was to continue to promote it as an up-market brand, where Waterman and Parker would continue to compete and provide distinct offerings.

6.45. Gillette argued that the merger would have no adverse effects since there were numbers of overseas manufacturers able to supply competitive writing instruments. The merged company, with three separate brands, would have no material increase in the market power currently enjoyed by Parker since the strength of buyers—wholesalers, business gift purchasers, and above all retailers—would prevent any attempts by the merged enterprise to exploit its position; indeed retailers and wholesalers might well take steps after the proposed merger to source elsewhere in order to reduce dependence on the merged group. Parker commented that the merger would make little difference to the competitive situation; current ease of entry to the UK market would not be affected. It also pointed to the power of retailers, and the introduction of own-brands, by, for example, W H Smith.

Market shares of the merged group

6.46. We considered these various concerns in the light of the likely market position once the three brands were in common ownership. The market research estimates provided by Parker in Table 3.5 indicate that in the year to mid-1991 Parker was already the major supplier of refillables, with over half of the estimated total refillables market by value; Waterman sales would have added about five percentage points and Paper Mate a further two points to this share. It is notable that on these

estimates Parker's share was highest in the lowest-priced segment of refillables, where it held almost three-quarters of sales by value, and tapered away to 25 per cent in the £100-plus segment. Conversely, Waterman was poorly represented in the lower segments, with most of its sales in the over-£50 price ranges. Paper Mate sold entirely in the lower-priced bands. On these estimates the proposed merger, taking the two firms together, would appear to add some seven percentage points to Parker's share overall, with a much smaller increase in the lowest price band where Parker was strongest. Waterman's contribution to the increase in market share would be more important in the higher bands and Paper Mate's in the lower. The estimates main suppliers gave us of their sales for the slightly later period of calendar or financial year 1991 are set out in Table 3.6. These suggest rather lower sales by Parker but somewhat higher sales by Paper Mate. We have no reason, however, to doubt the broad picture the market research estimates suggest of the Gillette market position after the proposed merger.

6.47. We looked first at the £10-and-over price segment, primarily the retail under-glass sector, where the main effect of the merger is to bring together two important brands, Parker and Waterman, which on Parker's estimates currently hold 39 and 11 per cent respectively of this sector as a whole, and together therefore would account for about half of sales into this sector. Secondly we considered the lower-priced (£2.50 to £10) segment where the merger would bring together two significant brands, Parker and Paper Mate, and would add about 4 per cent to Parker's estimated 74 per cent share. As noted in paragraph 6.39, Parker's estimated 74 per cent share of this total price segment in 1991 broke down by trade channel to give them four-fifths of this price segment of the business gifts market, and two-thirds of this segment of the retail market. In our examination we have distinguished between the effects of Parker's existing position in the market and the effects of the proposed merger.

The retail under-glass sector

Display arrangements

6.48. It was put to us by some suppliers that Gillette would be able to demand more and better display space because of its increased market share and because of its ability to design and install display fitments. However, those larger multiple retailers and department stores from which we received evidence made clear that they allocated space on the basis of the perceived strength of the brands and estimated sales prospects. Gillette told us that it intends to maintain the two separate Parker and Waterman brands and we would not expect significant changes in display space to result from the merger. Parker is already involved in the design and installation of display units to a larger extent than other suppliers; Gillette does very little and has not found it a rewarding venture. Even where a pen supplier designs the fitments the retailer has the last word on space allocation and it did not appear that Parker overall had more space in units it designed than was warranted by its sales volume. We noted that other brands had good display space and that important department stores such as Selfridges, John Lewis and House of Fraser designed and installed their own units. We did not think that the merger would materially worsen the present position.

Use of consultants

6.49. The provision of consultants to department stores and pen specialists accounts for a significant part of major pen suppliers' promotional expenditure, particularly in the pre-Christmas season. It was argued that after the proposed merger other suppliers would be unable to match Gillette's expenditure and that Gillette would be able to deploy its consultants more effectively and benefit from their ability to offer two brands, Parker and Waterman. Gillette accepted that it would gain some benefit from being able to deploy more effectively the Parker and Gillette expenditure on consultants. It said, however, that this was not an area in which Gillette participated from choice and it would not be reasonable to require it to withdraw consultants if others remained free to use them. We consider that the merger would give the merged company an opportunity to deploy expenditure on consultants more effectively and, by giving the consultants the opportunity to offer another brand if the first fails to find favour, would at least increase the prospects of a sale of one of Gillette's brands, particularly in those stores where the consultants are not identified as representing the supplier.

Discounts to retailers

6.50. It was also argued that the merged company would be able to use discounts aggressively, in particular by aggregating sales of its brands for the retrospective and overriding discounts already offered by Parker to selected retailers. While this would be a possibility it would require Gillette to spend more overall. Parker is already paying the discounts it considers necessary to secure its present sales; these are already high and appear to have been increasing. If additional discounts were offered, based on all sales, Gillette would in effect be paying extra on Parker's business to support the smaller brands. It would appear to be neither cost-effective nor in Gillette's commercial interest. It does not seem to us that the merger would give Gillette any substantial extra power in this area.

Market shares and entry

6.51. Although well-established pen brands such as Cross, Sheaffer, Parker and Waterman have held substantial shares of the under-glass sector for some years, market shares in this sector are not static. Waterman itself after years of disappointing performance appears to have been increasing its share. Montblanc has over a few years become the most important supplier of higher-priced pens. Brands like Elysée, Rotring, Tombow, Diplomat, Lamy and L'Plume have all established a visible presence in a few years as have W H Smith's own-brand pens. These are mostly produced by companies with a substantial presence in their home markets and well-placed to take advantage of any opportunities offered by the merger. There are few advantages of scale, and production or assembly can be successfully undertaken on a relatively small scale. Entry can be modest and the major department stores and multiple retailers are willing to give well-designed new brands an opportunity if marketing support is provided. We believe that if Gillette were to try to use the merger to raise prices there are sufficient actual and potential suppliers offering competitive products to enable retailers to resist the pressure.

The retail self-service sector

6.52. We have looked closely at the £2.50 to £10 segment of the market, estimated to account for about £43 million of the total refillables market of £110 million, given that this is already the area where Parker's market share is highest. In this price segment over half Parker's sales are into the business gifts market but it is also estimated to hold about two-thirds of the estimated retail sales of £18.5 million in this price range (see Table 3.7). Retail sales in this price band are predominantly self-service, with the product usually in blister packs. Parker is very much the established brand name in this area of the market. Waterman is poorly represented here and Gillette proposes to concentrate on its up-market ranges. Paper Mate is the second largest supplier but small by comparison with Parker. It has been reducing its range and its sales have fallen over the last ten years. Gillette told us that it has taken a decision to concentrate Paper Mate world-wide on the cheaper bulk disposable end of the market for the brand. Over the last few years it has withdrawn a number of its higher-priced brands and plans to withdraw all its items priced over £10 during the next two years. In the circumstances of this market we do not expect the merger and the possession of the three brands to give a merged group any greater strength in this sector than the three brands currently enjoy.

6.53. It was put to us that entry was difficult in the self-service sector; suppliers which were well-established in the higher-priced segments would be afraid to damage their image by moving down into the lower price ranges, while for suppliers of cheaper disposables to establish a reputation in the refillables market would require time and money. We accept that these factors may have contributed to Parker's present position. However, Parker's share of the total £2.50 to £10 price segment has grown rapidly—more than doubled since 1982 from 30 to nearly 70 per cent according to its market research estimates. This has coincided with a decline in the share of brands like Paper Mate and Sheaffer, which may reflect strategic decisions by those companies as much as Parker's competitive strength.

6.54. We have noted in paragraph 6.40 the large number of brands already available in this sector of the market—we have identified over 30, some from companies well-known in disposables, others

from companies established in the under-glass sector. There are other European firms, well-established in their home markets, and substantial Japanese suppliers known mainly at the moment in this market for cheaper disposable pens, which may be prepared to supply the refillable market in the UK. A number of other brands have established shares in the lower end of the under-glass sector and are well-placed to expand into the self-service sector. This is also the price band where own-brand products are well-established and are likely to be most acceptable. We have seen no evidence that Parker has exploited its position in the lower-priced end of the retail market and indeed some evidence that it was recently unable to hold an attempted price increase on its Jotter pen.

6.55. We consider that if Gillette were to attempt to exploit Parker's position in this sector retailers and wholesalers would resist and rapidly take steps to encourage the entry of competitors. Gillette would be constrained not only by retailer power but also by the strength of own-label brands in this price segment, by the presence of existing suppliers in the sector and the prospect of new entry and by the alternatives posed by a wide range of increasingly effective disposables.

Retailer power

6.56. Although some large retailers expressed concern about the proposed merger we are struck generally by the strength of retailer power in both the under-glass and self-service sectors. We were told that the general level of discounts had increased by several points over recent years. Retailers may also secure retrospective and overriding discounts. Department stores and multiples are able to secure substantial support for consultants, display space and promotions of immediate benefit to them even though suppliers, we were told, might prefer to spend a greater part of their marketing budgets on advertising to strengthen their brand image. In spite of the concerns expressed we do not see the retailers' present position being significantly affected by the merger.

6.57. At the lower-priced end of the market many suppliers, including Parker and Gillette, drew attention to the power of multiple retailers. We noted that W H Smith, the largest retailer of writing instruments in the UK, regarded the present balance of power between itself and suppliers as reasonable. It has established its own-label brands and gradually moved them into the higher-priced segments. We have no doubt that the multiple retailers would respond by developing other sources of supply, were there any attempt by Gillette to exploit its position by demanding extra display space or a greater share of orders, or by offering less attractive terms.

6.58. Smaller retailers are already likely to devote much of their space to Parker. For those which deal direct the proposed merger might encourage them to stock Waterman and Paper Mate products for the convenience of dealing with a single supplier. This would be unlikely to continue, however, if the merged group's prices moved out of line. Most smaller retailers deal through wholesalers and can order from a range of products. We noted that the major groups of wholesalers supplying smaller retailers did not think the merger would adversely affect them and consider that if put under pressure they would readily find alternative supplies.

6.59. Similarly we believe that Parker's power is limited in other parts of the retail trade by the countervailing power of large customers. For example, we were told by Parker that one major catalogue house had in the last year cut its allocation of catalogue space for Parker products because Parker had not agreed to provide promotional support on the scale requested.

6.60. We were surprised at the apparent lack of price competition between retailers, notwithstanding the high margins available. Most retailers adopt recommended prices although there are some whose policy is to sell at a discount. Competition takes place mainly through special offers. We considered whether the merged company might be in a position to lead prices upwards with the acquiescence of retailers. However, if there were to be such an opportunity it should already exist for Parker, given its market share. We had no complaints of excessive price rises in recent years and indeed there is some evidence that Parker was unable to hold a price increase introduced on the Jotter range. We think that competition from disposables will also continue to act as a constraint in the lower price ranges.

6.61. Taking all these factors into account we do not expect the proposed merger to lead to a reduction in competition, higher prices or less choice in the retail market.

The business gifts market

6.62. Parker has been active in developing opportunities for pens in the business gifts market and now has a substantial share of sales into this market, particularly in the lower-priced ranges of refillables, where its Vector pen has proved particularly attractive as an overprinted promotional gift. The market research estimates supplied by Parker give it about four-fifths of total sales of about £22 million in this price segment. All the major pen firms supply the market, either direct or through business gift houses. While brands are important in this market, particularly with more expensive gifts, price is a significant factor in choice at all levels and is particularly important in selling the cheaper pens, overprinted for promotional purposes. The business gifts market is large and competitive. Refillable pens are in competition not only with one another but also with disposables and other types of gift. Gift agents do not appear concerned that the merger will affect price or choice. While Parker's expertise in this market may enable Waterman to improve its sales performance we do not think that choice will be reduced or that the merged company will be able to raise prices.

The business use market

6.63. In the business use market most sales are of disposable pens. Refillables play only a small part in this market with sales of refillables priced at £2.50 or more of perhaps £4.5 million in total. Paper Mate is a substantial supplier of disposables but Parker and Waterman sell little into this market; only 5 per cent of Parker's sales go into it. Sales are mainly through wholesalers, which expressed little concern about the merger. Price is the main factor in this market and competition appears to be strong. We do not think that the merger will adversely affect price or choice in this market.

Refills

6.64. All the main suppliers provide refills for their own brands of refillables. Although it is worth producing cheaper alternatives to the larger-volume branded refills, particularly those of Parker, most customers appear to prefer to buy the branded refill and most retail outlets apart from some multiples stock only these. The refills market is thus directly linked to that for refillable pens and it is unlikely that the merger will have any effect on the present limited competition in refills.

Other considerations

6.65. Gillette told us that as a result of the merger it expected to reorganize its marketing and distribution activities with the prospect of some job losses. If, however, as expected, Parker's worldwide sales growth continued, it would expect a small net gain of employment in the UK in the medium term. Gillette also saw some limited scope for sharing of technologies although it did not envisage that it would be possible to integrate production facilities between the three distinct brands. Parker currently has no significant patent protection. Pooling of research results and technical knowledge might, however, produce some advantages for both parties. We do not think that these possible consequences significantly affect our evaluation of the proposed merger as a whole.

6.66. During the inquiry we received a complaint from a wholesaler in another EC country that Parker was impeding parallel imports by preventing Parker subsidiaries from supplying buyers outside the subsidiaries' domestic markets. An export ban included in an agreement concluded between Parker and another undertaking was referred to the EC Commission which decided in 1992 that the ban was a restriction on competition within the meaning of Article 85(1) of the EEC Treaty and imposed a fine of 700,000 ECU. But a second complaint concerning obligations imposed on its own subsidiaries by Parker, to restrict themselves to their assigned distribution areas when distributing Parker products, was rejected by the EC Commission. Appeals are pending against both decisions.

Following the first decision by the EC Commission, we understand that Parker introduced a wide-ranging EC competition law compliance programme. Parker also told us that all of its distributors throughout the EC, wholesalers and retailers, were free to export or import Parker products as they wished. We do not consider that the complaint made to us raises issues affecting the proposed acquisition of Parker by Gillette.

Conclusions

6.67. The proposed merger would bring together three well-known names in the UK writing instruments market: the Parker brand and Gillette's Paper Mate and Waterman brands. This market covers both disposable instruments (which are estimated to account for about half of writing instrument sales by value) and refillables. The great majority of Paper Mate's sales both by volume and value are of disposables but they also sell lower-priced refillables. Waterman and Parker produce only refillable instruments with a retail price above £2.50. We have therefore considered primarily the effects of the merger in the refillables market, while taking into account the possibility of competition between disposables and refillables in the lower price ranges.

6.68. We have borne in mind throughout the need to distinguish between the effects of Parker's present market position and the potential effects of the proposed merger. Parker is a well-established firm, with a strong brand reputation, which has made good progress over the seven years since the buy-out by the present managerial team and has built up a strong position in the refillables market, estimated at over half of total sales by value. Gillette's two brands are weak in the lower-priced refillables market where Parker is strongest.

6.69. As noted earlier, there are three main trade channels for refillable writing instruments: the retail, business gifts and the much less important business use market. We deal first with the business use and business gifts markets. As explained more fully in paragraphs 6.57 and 6.58, we do not think that the bringing together of the three brands will lead to adverse effects in these markets. Refillables play a small part in the business use market, which is dominated by sales of cheaper disposables and where price is the main factor. In the business gifts market the merger adds little to Parker's existing position and competition will continue from a wide range of pen suppliers and suppliers of other gifts. We do not think that the proposed merger would enable Gillette to raise prices or would lead to a reduction of choice in either of these markets.

6.70. As noted in paragraph 6.64, we consider that, given the strong apparent preference of users for branded refills, the market for refills must be considered as directly linked to that for pens. Again we do not think the proposed merger would have any direct effect on the limited competition that currently exists.

6.71. We have considered the effects of the proposed merger on the retail market in the light of concerns expressed by some parties and bearing in mind the fact that Parker's share of retail sales in the £2.50 to £10 range is around two-thirds. This price segment covers the greater part of sales of refillables to the self-service sector. Market shares have not remained static in the self-service sector; over the last ten years some well-known brands have lost sales in lower-priced refillables while Parker has markedly increased its share. There are already a large number of other brands on sale in this sector, some of which are recent entrants. There are also other European and overseas manufacturers and suppliers which are potentially able to enter this price segment. Some of these potential entrants are already established in disposables in the UK market and others have substantial resources and experience in the refillables range in other markets. It is possible to enter on a comparatively small scale by securing a trial with a major retailer. The presence of a wide range of well-designed and functional instruments in the under-£2.50 price range and the ability of multiple retailers to promote own-label sales will also exercise a restraining influence on any attempt to exploit market position in the lower-priced segment of refillables.

6.72. In the under-glass sector of the retail market we were struck by the number of different brands, types and styles of pen at a wide range of prices already available in the market and the choice offered to the consumer. A completely new entrant can start production on a small scale and

can find retailers willing to offer space, provided the price and the direct promotional support are right. As we note in paragraphs 6.15 and 6.37, a number of brands new to the UK have established themselves in recent years and secured significant sales. Market shares of existing suppliers have also changed significantly, with some improving their position in particular segments of the market. We noted the concern of some suppliers and retailers that a merged company would have the strength to use pricing, discounts and other forms of support aggressively both in this and the self-service sector. Such action would already be open to Parker given its market position; it would be costly and, given the number of competitors and comparative ease of entry to this market, we do not think that a merged company could gain any sustainable advantage by these means.

6.73. The major retailers exercise considerable strength in this sector as witnessed by their ability to secure substantial discounts and such other types of support as assistance with consultants and display space. We consider that a merged group would gain some advantage by deploying the consultants it provides to department stores and pen specialists to sell both the Waterman and Parker brands. In the context of the present merger proposal, however, we did not think any advantage that Gillette might acquire in deploying consultants would be sufficient in itself to enable it to exploit its position in this sector, given the power of the retailers and the range of competition. We noted, however, that the possibility of consumers being influenced to favour these brands would be increased in those department stores and pen specialists where consultants were not clearly identified as representing their sponsoring suppliers. We regard this practice, which may well mislead the consumer into assuming that he or she is receiving completely unbiased advice in choosing a pen, as one which may well deserve further investigation on consumer protection grounds.

6.74. Overall we consider that, both in the under-glass and self-service sectors of the retail market, any increase in strength of the merged company would be held in check by a combination of retailer power and the existence of both actual and potential competitors.

6.75. We therefore conclude that the creation of the merger situation that we have identified may not be expected to operate against the public interest.

M S LIPWORTH (*Chairman*)

C C BAILLIEU

P K R MANN

G C S MATHER

L PRIESTLEY

S N BURBRIDGE (*Secretary*)

13 January 1993

Conduct of the inquiry

1. On 5 October 1992 the Department of Trade and Industry sent to the MMC the following reference:

Whereas it appears to the Secretary of State that it is or may be the fact that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a merger situation qualifying for investigation, as defined in section 64(8) of the Fair Trading Act 1973 ('the Act'), in that:

- (a) enterprises carried on by or under the control of the Gillette Company will cease to be distinct from enterprises carried on by or under the control of Parker Pen Holdings Limited (incorporated in the United Kingdom);
- (b) the value of the assets taken over exceeds £30 million:

Now, therefore, the Secretary of State, in exercise of his powers under sections 69(2) and 75(1) of the Act, hereby refers to The Monopolies and Mergers Commission ('the Commission') for investigation and report within a period ending on 13 January 1993 the following questions:

- (i) whether arrangements are in progress or in contemplation as described in paragraph (a) above which, if carried into effect, will result in the creation of a merger situation qualifying for investigation;
- (ii) if events so require, whether the actual results of those arrangements are the creation of such a situation; and
- (iii) if so, in either case, whether the creation of that situation may be expected to operate or (if events so require) operates against the public interest.

In relation to the questions in paragraph (i) and (ii) above, the Commission shall exclude from consideration one of paragraphs (a) and (b) of section 64(1) of the Act if they find the other satisfied.

(signed) JOHN ALTY
An Assistant Secretary
Department of Trade and Industry

5 October 1992

2. The composition of the group of members responsible for the present investigation and report is indicated in the list of members in the preface.

3. Notices inviting interested parties to submit evidence to the MMC were placed in the *Financial Times* and *Retail Newsagent*.

4. In addition we sought evidence and views from trade unions, trade and consumer associations, manufacturers, suppliers, retailers and wholesalers of writing instruments, and a number of other interested parties. Written evidence was received from many of these parties and we held hearings with 14 of them.

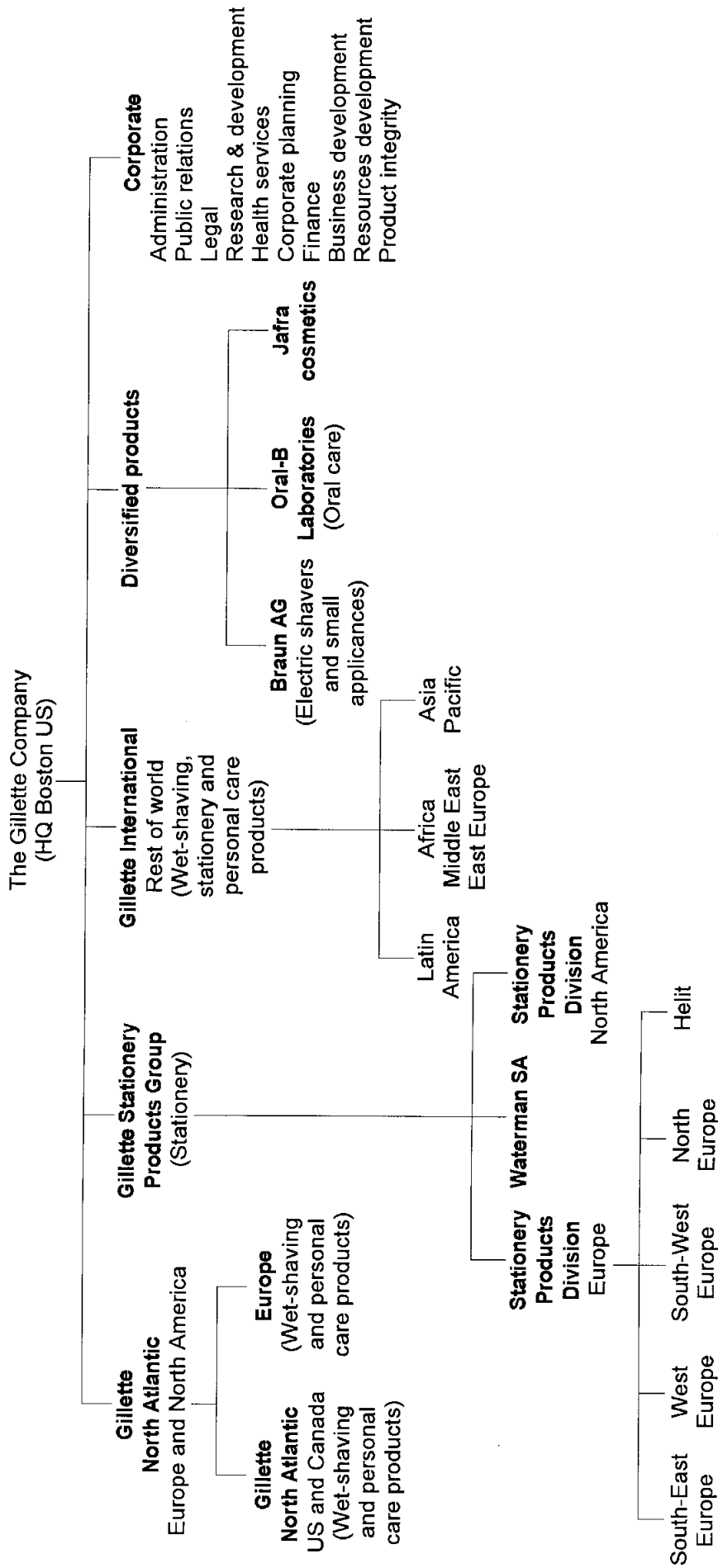
5. We received written submissions from Parker and Gillette and held two hearings with each of them. Members of the group, accompanied by staff, visited Parker's factory at Newhaven.

6. Some of the evidence obtained in the course of our inquiry was of a commercially confidential nature and our report contains only such information as we consider necessary for an understanding of our conclusions.

7. We should like to thank all those who helped us in our inquiry, and particularly Gillette and Parker.

APPENDIX 2.1
(referred to in paragraph 2.7)

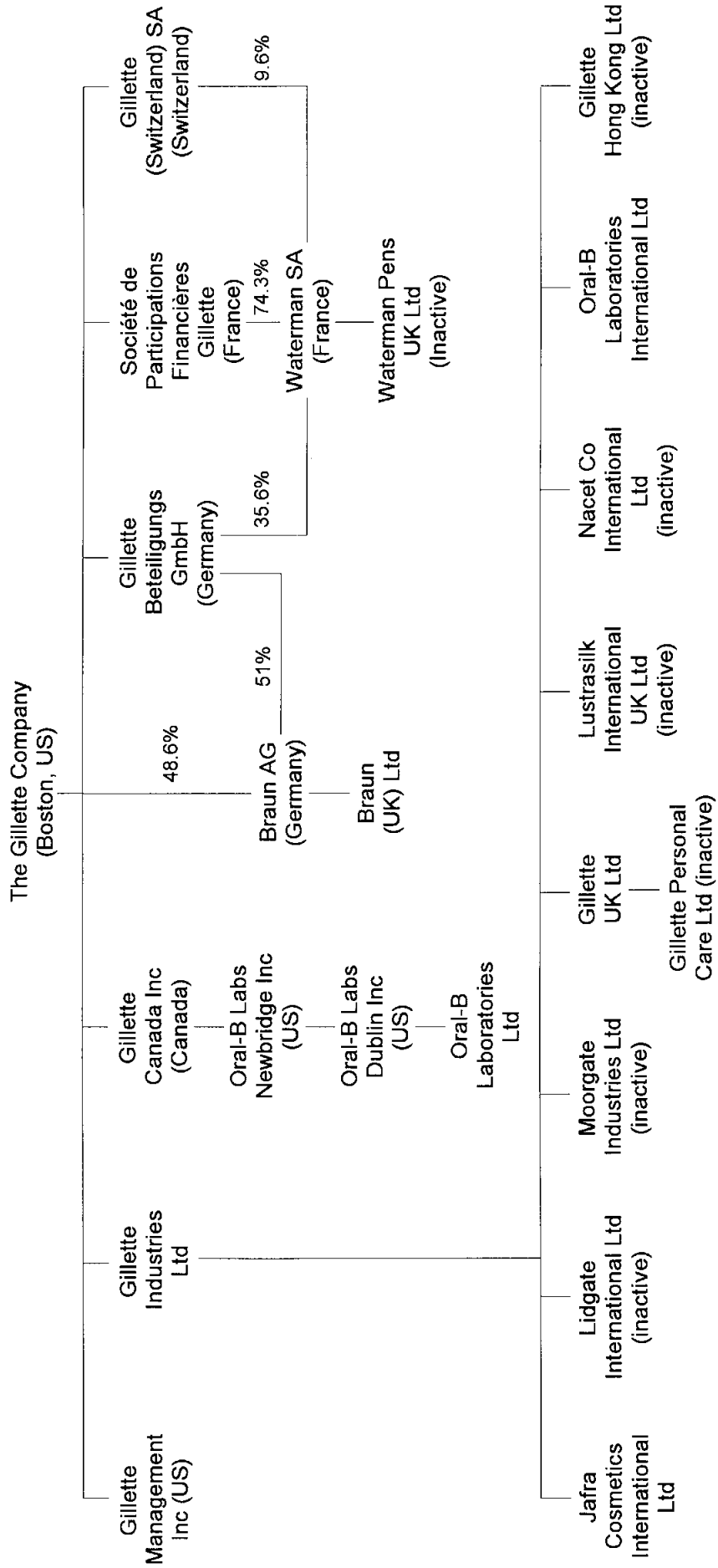
Gillette's world-wide organizational structure



Source: Gillette.

APPENDIX 2.2
 (referred to in paragraph 2.9)

Gillette's UK corporate group structure



Source: Gillette.

Note: All legal entities are incorporated in England and Wales, except where stated otherwise.

APPENDIX 2.3
(referred to in paragraph 2.14)

**Gillette UK: profit and loss accounts
for the five years to 30 November 1991**

£ million

	<i>Years ended 30 November</i>				
	<i>1987</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>
Turnover	113.1	126.2	145.4	159.4	179.4
Cost of sales	<u>99.2</u>	<u>114.7</u>	<u>125.4</u>	<u>135.2</u>	<u>145.0</u>
Gross profit	13.9	11.5	20.0	24.2	34.4
Distribution expenses	(2.7)	(2.9)	(2.7)	(3.0)	(3.2)
Administrative expenses	(4.1)	(4.3)	(4.7)	(6.0)	(9.5)
Other operating income/(costs)	<u>1.4</u>	<u>0.6</u>	<u>1.8</u>	<u>0.0</u>	<u>(0.1)</u>
Operating profit	8.5	4.9	14.4	15.2	21.6
Net interest payable and similar charges	(0.7)	(2.8)	(3.6)	(8.9)	(6.7)
Exceptional items	<u>(2.6)</u>	<u>(1.8)</u>	<u>(1.8)</u>	<u>(7.5)</u>	<u>0.0</u>
Profit/(loss) on ordinary activities before taxation	5.2	0.3	9.0	(1.2)	14.9
Tax on profit on ordinary activities	<u>(2.3)</u>	<u>(0.3)</u>	<u>(4.1)</u>	<u>0.8</u>	<u>(2.9)</u>
Profit on ordinary activities after taxation	2.9	0.0	4.9	(0.4)	12.0
Extraordinary items	(1.4)	0.0	0.0	0.0	0.0
Dividends	<u>(6.8)</u>	<u>(1.5)</u>	<u>(9.9)</u>	<u>(1.0)</u>	<u>0.0</u>
Retained profit/(loss)	(5.3)	(1.5)	(5.0)	(1.4)	12.0

Source: Gillette UK.

APPENDIX 2.4
(referred to in paragraph 2.14)

**Gillette UK: balance sheets for the five years
to 30 November 1991**

£ million

	<i>Years ended 30 November</i>				
	<i>1987</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>
Tangible fixed assets	20.2	26.9	28.3	29.6	31.8
Investments*	5.2	5.1	5.9	17.4	17.4
Stocks and debtors less creditors (other than borrowings)	<u>31.9</u>	<u>15.0</u>	<u>12.3</u>	<u>35.3</u>	<u>35.7</u>
Capital employed	57.3	47.0	46.5	82.3	84.9
Assets under construction	3.9	4.8	6.6	7.6	8.1
Borrowings net of cash	<u>(18.3)</u>	<u>(9.9)</u>	<u>(17.8)</u>	<u>(56.2)</u>	<u>(45.9)</u>
Net tangible assets	42.9	41.9	35.3	33.7	47.1
Share capital	4.0	4.0	4.0	4.0	4.0
Profit and loss account	27.9	26.3	21.3	19.9	31.9
Reserves	6.1	6.1	6.1	6.1	6.1
Provisions for liabilities and charges	<u>4.9</u>	<u>5.5</u>	<u>3.9</u>	<u>3.7</u>	<u>5.1</u>
Net equity	42.9	41.9	35.3	33.7	47.1

Source: Gillette UK.

*Investments include shares in group undertakings and, in 1990 and 1991, a 22 per cent non-voting equity interest in Eemland Holdings NV which owns the Wilkinson Sword shaving business in the EC and the USA.

APPENDIX 2.5
(referred to in paragraph 2.14)

**Gillette UK: sources and application of funds
for the five years to 30 November 1991**

£ million

	<i>Years ended 30 November</i>				
	<i>1987</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>
<i>Sources</i>					
Profit/(loss) before tax	5.2	0.3	9.0	(1.2)	14.9
Add back non-cash items:					
Depreciation	3.2	4.1	4.5	5.0	5.1
Other	<u>(0.1)</u>	<u>0.0</u>	<u>1.4</u>	<u>0.2</u>	<u>0.3</u>
Funds from operations	8.3	4.4	14.9	4.0	20.3
Funds from other sources	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total sources	8.3	4.4	14.9	4.0	20.3
<i>Applications</i>					
Net (purchase)/disposal of fixed assets	(3.5)	(11.7)	(7.8)	(7.6)	(8.0)
Taxation paid	(3.6)	(1.4)	(1.7)	(3.2)	(0.9)
Dividend paid	(7.7)	(1.5)	(2.0)	(1.0)	(0.0)
Additions to investments	(0.0)	(0.0)	(2.1)	(11.5)	(0.0)
(Increase)/decrease in working capital	<u>(14.6)</u>	<u>17.2</u>	<u>12.5</u>	<u>13.0</u>	<u>(5.3)</u>
Total applications	(29.4)	2.6	(1.1)	(10.3)	(14.2)
Net increase/(decrease) in balance at bank and cash in hand and decrease/(increase) in short-term borrowings	(21.1)	7.0	13.8	(6.3)	6.1

Source: Gillette UK.

APPENDIX 2.6
(referred to in paragraph 2.16)

**Waterman Pens (UK): profit and loss accounts
for the four years to 30 November 1991**

	<i>£ million</i>			
	<i>Year ended 30.9.88</i>	<i>14 mths ended 30.11.89</i>	<i>Year ended 30.11.90</i>	<i>Year ended 30.11.91</i>
Turnover	1.3	2.3	2.5	2.4
Cost of sales	<u>0.8</u>	<u>1.2</u>	<u>1.4</u>	<u>1.3</u>
Gross profit	0.5	1.1	1.1	1.1
Selling and distribution costs	(0.4)	(0.8)	(1.1)	(1.0)
Administration and financial expenses	<u>(0.2)</u>	<u>(0.5)</u>	<u>(0.1)</u>	<u>(0.3)</u>
Operating profit/(loss)	(0.1)	(0.2)	(0.1)	(0.2)
Interest payable	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Profit/loss on ordinary activities before tax	(0.1)	(0.2)	(0.1)	(0.2)
Taxation	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
(Loss) after taxation	(0.1)	(0.2)	(0.1)	(0.2)
Extraordinary income	<u>0.4</u>	<u>0.0</u>	<u>(0.1)</u>	<u>0.1</u>
Retained profit/(loss)	0.3	(0.2)	(0.2)	(0.1)

Source: Gillette UK.

Notes:

1. In 1987 the year end was changed and accounts were prepared for the year to 31 March and for the six months to 30 September. As 1987 would have been the earliest year in the table, it has been omitted in view of these different time periods.
2. At 30 November 1991 the business of Waterman Pens (UK) was transferred to Gillette UK. Forecast figures for 1991/92 for Gillette UK including Waterman Pens are shown in Table 2.1.
3. Administration and financial expenses include profit/(loss) on foreign exchange.
4. Extraordinary income in 1987/88 arose from waiver by Waterman SA of payments for writing instruments.

APPENDIX 2.7
(referred to in paragraph 2.17)

**Waterman Pens (UK): balance sheets
for the four years to 30 November 1991**

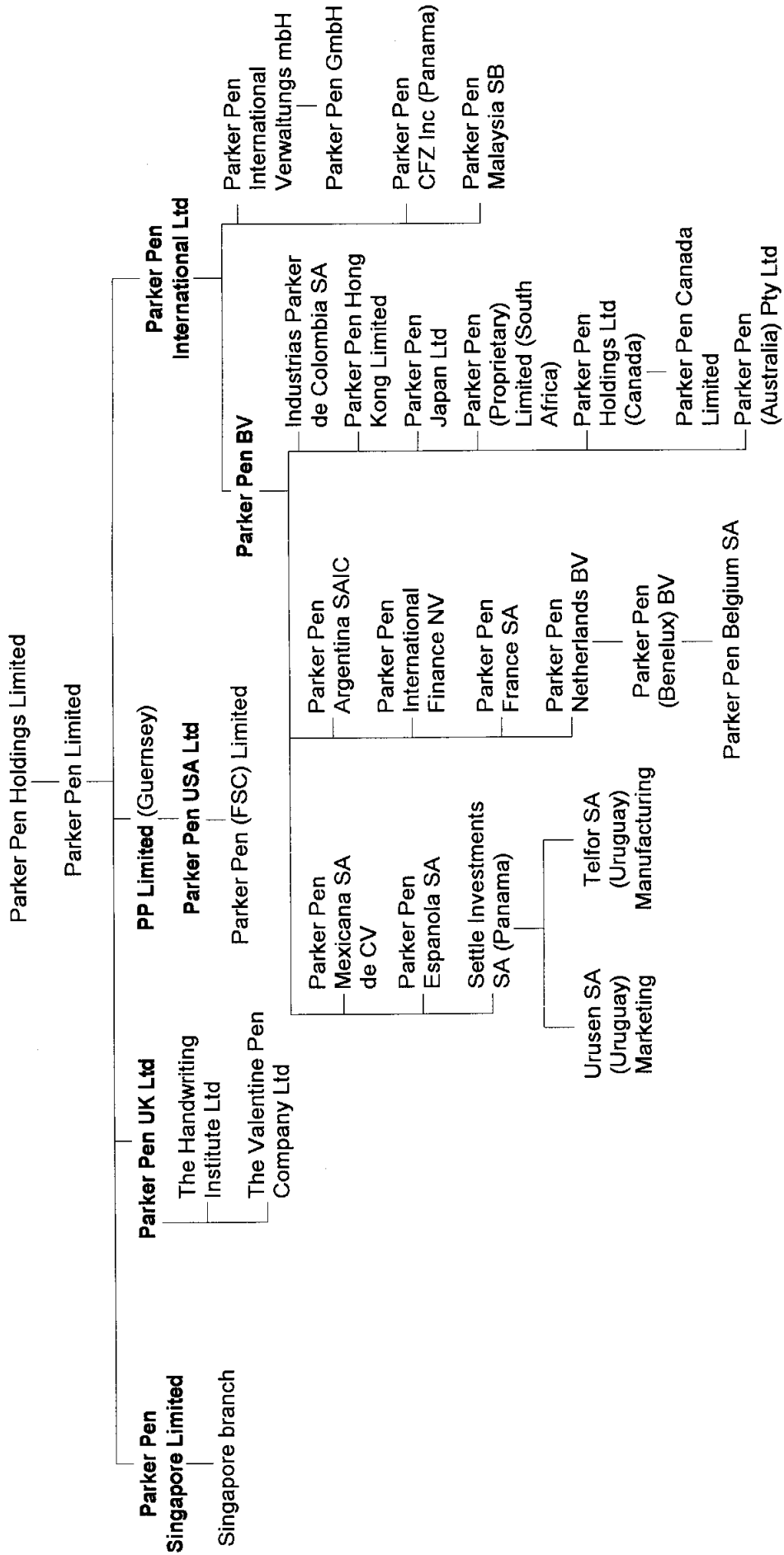
	<i>£ million</i>			
	30.9.88	30.11.89	30.11.90	30.11.91
Tangible fixed assets*	0.0	0.0	0.0	0.0
Stocks and debtors less creditors (other than borrowings)	<u>0.1</u>	<u>(0.4)</u>	<u>(0.6)</u>	<u>(0.7)</u>
Capital employed	0.1	(0.4)	(0.6)	(0.7)
Borrowings less cash	<u>(0.5)</u>	<u>(0.2)</u>	<u>(0.2)</u>	<u>(0.2)</u>
Net tangible assets	(0.4)	(0.6)	(0.8)	(0.9)
Share capital	0.3	0.3	0.3	0.3
Profit and loss account (deficit)	<u>(0.7)</u>	<u>(0.9)</u>	<u>(1.1)</u>	<u>(1.2)</u>
Net equity	<u>(0.4)</u>	<u>(0.6)</u>	<u>(0.8)</u>	<u>(0.9)</u>

Source: Gillette UK.

*Between 1988 and 1990, tangible fixed assets consisting of fixtures and fittings, office furniture and office equipment were held. However, these are shown above at nil value as their net book value was under £50,000 and they therefore do not show on the table to the nearest £0.1 million. At 30 November 1991 tangible fixed assets were £nil, having been disposed of to Gillette UK.

APPENDIX 2.8
 (referred to in paragraph 2.26)

Parker organizational structure



Source: Parker.

APPENDIX 2.9
(referred to in paragraph 2.31)

**Parker Pen and Parker Pen Holdings: group profit and loss
accounts for the five years to 28 February 1992**

£ million

	<i>Parker Pen</i>		<i>Parker Pen Holdings</i>		
	<i>Years ended 28 February</i>				
	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>
Turnover	134.3	144.2	160.9	170.4	181.3
Cost of sales	<u>69.4</u>	<u>70.8</u>	<u>76.9</u>	<u>78.9</u>	<u>82.3</u>
Gross profit	64.9	73.4	84.0	91.5	99.0
Distribution costs	(31.7)	(33.8)	(38.1)	(42.6)	(45.7)
Administration costs	<u>(13.4)</u>	<u>(16.2)</u>	<u>(15.0)</u>	<u>(16.2)</u>	<u>(17.5)</u>
Operating profit	19.8	23.4	30.9	32.7	35.8
Net interest payable	(1.8)	(2.1)	(9.8)	(9.2)	(6.4)
Gain/(loss) on translation	(0.5)	0.8	(0.5)	(0.6)	0.1
Exceptional items	0.0	(1.4)	0.0	0.0	0.0
Elimination of pre-acquisition profits	<u>0.0</u>	<u>0.0</u>	<u>(2.0)</u>	<u>0.0</u>	<u>0.0</u>
Profit on ordinary activities before taxation	17.5	20.7	18.6	22.9	29.5
Tax on profit on ordinary activities	<u>(6.9)</u>	<u>(7.6)</u>	<u>(7.5)</u>	<u>(9.1)</u>	<u>(10.2)</u>
Profit on ordinary activities after taxation	10.6	13.1	11.1	13.8	19.3
Extraordinary items	0.6	(0.1)	0.0	0.0	0.0
Dividends paid and proposed	<u>(4.5)</u>	<u>(10.7)</u>	<u>(1.2)</u>	<u>(1.2)</u>	<u>(6.0)</u>
Retained profit for year	6.7	2.3	9.9	12.6	13.3

Source: Parker Pen Holdings.

Notes:

1. Parker Pen Holdings states that the periods up to 1989 and subsequently are not directly comparable—see paragraph 2.29.
2. The extraordinary profit of £0.6 million in 1987/88 was made on the sale to Gillette of Parker's 12 per cent holding in Waterman SA (referred to in paragraph 2.11).

APPENDIX 2.10
(referred to in paragraphs 2.25, 2.32 and 2.33)

**Parker Pen and Parker Pen Holdings: group balance sheets
for the five years to 28 February 1992**

£ million

	<i>Parker Pen</i>		<i>Parker Pen Holdings</i>		
	<i>Years ended 28 February</i>				
	1988	1989	1990	1991	1992
Fixed assets	22.1	21.7	20.6	20.2	22.8
Stocks and debtors less creditors (other than borrowings and amounts treated as provisions*)	<u>21.5</u>	<u>15.6</u>	<u>21.9</u>	<u>24.9</u>	<u>37.3</u>
Capital employed	43.6	37.3	42.5	45.1	60.1
Investments	1.5	1.5	1.8	2.0	0.7
Intangible assets	0.6	0.5	0.0	0.0	0.0
(Borrowings net of cash)	<u>(16.4)</u>	<u>(7.5)</u>	<u>(58.3)</u>	<u>(49.2)</u>	<u>(42.4)</u>
Net assets	29.3	31.8	(14.0)	(2.1)	18.4
Share capital	1.4	1.4	1.2	1.2	1.2
Share premium account	8.0	8.0	0.2	0.2	0.4
Profit and loss account	10.8	13.0	10.4	24.4	36.4
Merger reserve	0.0	0.0	(63.8)	(63.8)	(63.8)
Provisions for liabilities and charges	<u>9.1</u>	<u>9.4</u>	<u>38.0</u>	<u>35.9</u>	<u>44.2</u>
Net equity	29.3	31.8	(14.0)	(2.1)	18.4

Source: Parker Pen Holdings.

*Creditors treated as provisions are dividends proposed but not declared at the balance sheet date and corporation tax on the profits of the year ending on the balance sheet date.

Notes:

1. Gearing (borrowings net of cash as a percentage of net equity) (%)	56.0	23.6	neg net equity	neg net equity	230.4
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2. Parker Pen Holdings states that the periods up to 1989 and subsequently are not directly comparable—see paragraph 2.29.

APPENDIX 2.11
(referred to in paragraph 2.34)

Merger reserve

1. Under the Companies Act 1985, a merger reserve may be created in circumstances where:

- (a) shares have been issued at a premium to their nominal value on acquisition of another company; and
- (b) the premium on issue qualifies for relief ('merger relief') from transfer to share premium account (which is restricted as to its use) so that the premium may be credited to a 'merger reserve'.

2. A merger reserve can be used to write off goodwill ('goodwill' arises on the acquisition of a company, when the fair value of the consideration given on the acquisition of assets exceeds the fair value of the assets acquired). Parker Pen Holdings has used the merger reserve in its accounts for this purpose. However, goodwill written off has been greater than the qualifying premiums on issue of shares, so that the merger reserve appearing in the accounts of Parker Pen Holdings is negative.

APPENDIX 2.12
(referred to in paragraph 2.37)

**Parker Pen and Parker Pen Holdings: group sources
and application of funds for the five years to 28 February 1992**

£ million

	<i>Parker Pen</i>		<i>Parker Pen Holdings</i>		
	<i>Years ended 28 February</i>				
	1988	1989	1990	1991	1992
<i>Sources</i>					
Profit before tax	17.5	20.7	18.6	22.9	29.5
Add back non-cash items:					
Depreciation	3.7	3.5	3.1	3.0	3.7
Other (mainly movements in provisions and exchange adjustments)	(0.7)	0.8	0.6	(0.9)	2.1
Extraordinary items before taxation	<u>0.9</u>	<u>0.7</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Funds from operations	21.4	25.7	22.3	25.0	35.3
<i>Funds from other sources</i>					
Shares issued in consideration of acquisition of subsidiaries	0.0	0.0	74.8	0.0	0.0
Issue of new share capital	0.0	0.0	0.2	0.0	0.2
Increase/(decrease) in borrowings	<u>1.1</u>	<u>(4.8)</u>	<u>57.5</u>	<u>(4.0)</u>	<u>(8.1)</u>
Total sources	22.5	20.9	154.8	21.0	27.4
<i>Applications</i>					
(Purchase)/disposal of tangible fixed assets	(3.3)	(3.6)	(1.6)	(3.4)	(5.8)
Acquisition of subsidiaries	0.0	0.0	(134.4)	0.0	0.0
Redemption of shares	(9.9)	0.0	0.0	0.0	0.0
Taxation paid	(7.0)	(8.2)	(10.9)	(6.5)	(10.4)
Dividends paid	(3.4)	(7.5)	(1.2)	(1.2)	(1.2)
(Increase)/decrease in working capital	<u>1.1</u>	<u>2.6</u>	<u>(0.1)</u>	<u>(4.8)</u>	<u>(11.3)</u>
Total applications	(22.5)	(16.7)	(148.2)	(15.9)	(28.7)
Increase/(decrease) in cash at bank and in hand	0.0	4.2	6.6	5.1	(1.3)

Source: Parker Pen Holdings.

Note: Parker Pen Holdings states that the periods up to 1989 and subsequently are not directly comparable—see paragraph 2.29.

APPENDIX 2.13
(referred to in paragraph 2.46)

**Parker Pen UK: profit and loss accounts
for the five years to 28 February 1992**

	Years ended 28 February					£ million
	1988	1989	1990	1991	1992	Forecast 1993
Turnover	54.6	58.1	62.7	73.7	71.6	67.1
Cost of sales	<u>33.3</u>	<u>32.5</u>	<u>34.4</u>	<u>45.0</u>	<u>41.3</u>	<u>40.8</u>
Gross profit	21.3	25.6	28.3	28.7	30.3	26.3
Distribution costs	(0.8)	(1.4)	(1.6)	(1.9)	(2.1)	(14.6)
Administrative expenses	<u>(10.8)</u>	<u>(11.5)</u>	<u>(11.8)</u>	<u>(12.1)</u>	<u>(14.4)</u>	
Operating profit	9.7	12.7	14.9	14.7	13.8	11.7
Net interest receivable/(payable)	<u>(0.1)</u>	<u>0.0</u>	<u>0.1</u>	<u>0.1</u>	<u>0.2</u>	<u>0.1</u>
Profit on ordinary activities before exceptional item	9.6	12.7	15.0	14.8	14.0	11.8
Exceptional item	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>1.0</u>	<u>0.0</u>
Profit on ordinary activities before taxation	9.6	12.7	15.0	14.8	15.0	11.8
Taxation	<u>(3.2)</u>	<u>(4.4)</u>	<u>(5.1)</u>	<u>(5.4)</u>	<u>(4.7)</u>	<u>(4.0)</u>
Profit for the year after taxation	6.4	8.3	9.9	9.4	10.3	7.8
Extraordinary item	0.0	1.4	0.0	0.0	0.0	
Transfer from reserves	0.0	0.0	2.1	1.6	0.0	
Dividends paid and proposed	<u>(2.9)</u>	<u>(6.0)</u>	<u>(12.0)</u>	<u>(11.0)</u>	<u>(6.0)</u>	
Retained profit for the year	3.5	3.7	0.0	0.0	4.3	

Source: Parker Pen UK.

Note: Parker stated that, for historic reasons, the format of Parker Pen UK's statutory accounts differs from that of Parker Pen Holdings. To make both sets of figures comparable marketing expenses, which in Parker Pen UK are shown under administration, would need to be reclassified under distribution expenses. The following table shows the effect of this reclassification.

	£ million				
	1988	1989	1990	1991	1992
Distribution costs (as above)	(0.8)	(1.4)	(1.6)	(1.9)	(2.1)
Add: marketing expenses	<u>(8.1)</u>	<u>(7.9)</u>	<u>(7.7)</u>	<u>(9.1)</u>	<u>(10.3)</u>
	(8.9)	(9.3)	(9.3)	(11.0)	(12.4)
Administrative expenses (as above)	<u>(10.8)</u>	<u>(11.5)</u>	<u>(11.8)</u>	<u>(12.1)</u>	<u>(14.4)</u>
Less: marketing expenses to distribution	<u>8.1</u>	<u>7.9</u>	<u>7.7</u>	<u>9.1</u>	<u>10.3</u>
	(2.7)	(3.6)	(4.1)	(3.0)	(4.1)

APPENDIX 2.14
(referred to in paragraphs 2.44 and 2.47)

Parker Pen UK: balance sheets for the five years to 28 February 1992

	<i>£ million</i>				
	<i>Years ended 28 February</i>				
	1988	1989	1990	1991	1992
Tangible fixed assets	9.6	10.4	9.8	10.1	10.3
Stocks and debtors less creditors (other than borrowings and amounts treated as provisions*)	<u>14.0</u>	<u>15.1</u>	<u>12.4</u>	<u>8.4</u>	<u>13.6</u>
Capital employed	23.6	25.5	22.2	18.5	23.9
Investments	2.4	2.4	2.6	2.8	1.6
Net cash/borrowings	<u>(1.2)</u>	<u>1.5</u>	<u>3.1</u>	<u>5.2</u>	<u>4.3</u>
Net assets	24.8	29.4	27.9	26.5	29.8
Share capital and capital redemption reserve	3.0	3.0	3.0	3.0	3.0
Profit and loss account	15.6	18.8	16.8	15.1	19.4
Other reserves	0.1	0.1	0.0	0.0	0.0
Provisions for liabilities and charges	<u>6.1</u>	<u>7.5</u>	<u>8.1</u>	<u>8.4</u>	<u>7.4</u>
Net equity	24.8	29.4	27.9	26.5	29.8

Source: Parker Pen UK.

*Creditors for corporation tax on the profits of the year ending on the balance sheet date are treated as provisions.

APPENDIX 2.15
(referred to in paragraph 2.48)

**Parker Pen UK: sources and application of funds
for the five years to 28 February 1992**

	<i>£ million</i>				
	<i>Years ended 28 February</i>				
	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>
<i>Sources</i>					
Profit before tax	9.6	12.7	15.0	14.8	15.0
Add back non-cash items:					
Depreciation	1.5	1.4	1.6	1.6	1.7
Other	(0.1)	0.1	0.0	0.2	(0.2)
Extraordinary items before taxation	<u>0.0</u>	<u>2.2</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Funds from operations	11.0	16.4	16.6	16.6	16.5
Funds from other sources	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total sources	11.0	16.4	16.6	16.6	16.5
<i>Applications</i>					
Net (purchase)/disposal of tangible fixed assets	(1.5)	(2.2)	(0.9)	(1.9)	(1.9)
Taxation paid	(1.8)	(1.6)	(2.9)	(3.4)	(10.5)
Dividends paid	(2.9)	(6.0)	(12.0)	(11.0)	(6.0)
Loan repayments	(1.7)	0.0	0.0	0.0	0.0
(Increase)/decrease in working capital	<u>(3.5)</u>	<u>(5.2)</u>	<u>0.8</u>	<u>1.8</u>	<u>1.0</u>
Total applications	(11.4)	(15.0)	(15.0)	(14.5)	(17.4)
Increase/(decrease) in cash at bank and in hand	(0.4)	1.4	1.6	2.1	(0.9)

Source: Parker Pen UK.

APPENDIX 3.1
(referred to in paragraphs 3.31 and 3.35)

**List of brands with refillable writing instruments retailing
in the UK market at £2.50 or more**

<i>Brand</i>	<i>Brand*</i>	<i>Nationality of: Parent company, if known</i>
Aurora	Italian	Italian
Caran d'Ache	Swiss	Swiss
Cartier	French	Swiss
Chromatic†	American	
Colibri†	British	British
Creeks 'n Creeks†	French	French
Cross	American	American
Diplomat†	German	German
Dunhill	British	Swiss
S T Dupont	French	Hong Kong
Edding†	German	German
Elysée†	German	German
Fisher	American	American
Inoxcrom†	Spanish	Spanish
Lamy†	German	German
L'Plume†	British	British
Naf-Naf†	French	French
Marksmant†	German	German
Minka†	Taiwanese	Taiwanese
Montblanc	German	Swiss
Orma†	Italian	Italian
Osmiroid†	British	American
Paper Mate†	American	American
Parker†	British	British
Pelikant†	German	Swiss
Pentech†	American	American
Pentel†	Japanese	Japanese
Pilot†	Japanese	Japanese
Platignum†	British	British
Quill†	American	American
Rotring†	German	German
Senator†	German	German
Sheaffert†	American	Swiss
Staedtler†	German	German
Stypent†	French	French
Tombow†	Japanese	Japanese
Uniball†	Japanese	Japanese
Waterman†	French	American
Yard-o-Led	British	British
Yves Saint Laurent	French	French
Zebra†	Japanese	Japanese
<i>Retailers' own brands</i>		
Signature†	(W H Smith)	
Messenger	(W H Smith)	
W H Smith†	(W H Smith)	
Ryman†	(Ryman)	

*The 'nationality' of the brand refers to the country with which the brand is most closely associated, usually its main seat of business.

†Brands with products selling in the £2.50 to £10 price segment.



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