

JLA/WASHSTATION MERGER INQUIRY

Summary of hearing with Goodman Sparks Ltd on 21 May 2018 at 3:30pm to 4:30pm

Background of Goodman Spark's business

1. Goodman Sparks Ltd ("GS") said that it is a small and regional player with limited resources. GS aims to grow its managed laundry service business to higher education customers ("HE customers") by [a limited number of contracts a year] [REDACTED].
2. GS' focus on North England was due to the use of cash and coin operated washing machines, which required a weekly collection from GS' office in Sheffield and restricted the geographic area in which GS could be active. Lately, GS has been using card readers and this cashless option might enable GS to offer services on a wider geographic scale. However, the servicing of the machines needs to be taken into account as well and GS has 10 engineers for all its business based in [REDACTED] which limits its reach. For anything further than [REDACTED], GS would need to employ third party engineers from outside and GS is not keen on this due to the limited margin in this sector. GS uses its engineers for all types of customers.

Effects of the merger and current market situation

3. GS said that the merger between JLA and Washstation ("the merger") has lessened competition in the market. It was very difficult to compete in the supply of managed laundry services to HE with those two parties active. GS said that here is likely to be only Circuit and GS competing for contracts in the North so GS estimated does have a better chance of winning one.
4. GS said they had not come across Armstrong competing for a HE contract in the North of England which is due to them only having service cover in the South, the Midlands, and Scotland.
5. GS explained that, after the merger, it would continue to offer what it always has and it is difficult to answer whether the merger made any difference because it is still early days. GS has looked at [REDACTED]. GS is still waiting for this outcome.
6. GS explained that the reason [REDACTED] is that GS is a small family business which has [REDACTED]. In addition, there are the potential problems with lower commissions. The [REDACTED]. The margins were low for a small company like GS.

7. GS said that universities prefer vend sharing agreements and that it is straightforward for GS to estimate the financial risk, as revenues are fairly predictable. When GS started, the summer months in which students do not use the machines were problematic in terms of cashflow.
8. Customers might be willing to use fixed rental agreements. For example, the [X] asked for a proposal both for a revenue share and a fixed rental prices.
9. GS said that universities would probably not provide managed laundry services in-house currently, but once they understood that it is easy, they might do it.

Other (possible) competitors and entry barriers

10. GS told the CMA that it was difficult to envisage anybody coming in the HE market, except for Washstation which had expertise. GS explained that Washstation wanted to have a good resell value and GS did not know whether Washstation made any money.
11. As regards other possible entrants into the HE sector, GS said that manufacturers could be potential entrants, however they never got involved, which was mainly because of the cost of those machines are too high to get a return in this market. GS (and also JLA and Washstation) use semi-commercial machines for the HE sector, which are half the price of a commercial machine such as Miele.
12. When asked whether a supplier of laundry services to care homes could move his experience to the HE sector, GS said it might be possible, but noted that HE is a different market, given the importance of student experience, prices and vending machines. It is also key to have contacts in the HE sector and contracts in place. Alistair Copley was very known in the market. GS said that it was necessary to have experience in the sector submit a successful bid in a tender experience in the sector, and that, generally, people ask for testimonials. For example, [X].
13. GS said that it was difficult to get the right type of machine for this business. The more commercial producers such as Miele, Girbau and Electrolux are too expensive. GS, JLA and Washstation have always used semi-commercial machines, e.g. Maytag or Alliance which are half the price of Miele machines. Commercial machines are built for the care home market where a machine is running all day, 7 days a week, 365 days of the year, whereas the usage in HE is relatively low and a semi-commercial machine can comfortably do 5 years in that market.
14. Other OEMs like Alliance point companies to their distributors such as JLA and Armstrong if they are directly approached. [X]. GS said that JLA always had a strong trade sales business and that the JLA salesmen told them that they would rather sell to GS than have JLA's rental department win the tender. Washstation originally purchased from JLA and then went to Maytag directly. This approach is possible for a company to replicate, but that

company would need to have buy a large number of machines (eg around the number of machines equivalent to serve ten large contracts.

15. GS told the CMA that cashless services do not require a big outlay, as used to be the case ten years ago. There is not much infrastructure needed - the card reader is attached to the machine and GS uses one reader per stack (i.e. a washing machine and a tumble dryer) or per machine. A card reader costs £[redacted] and no further infrastructure is involved.
16. GS said that internet viewing systems for students to check the washing status of the machine are becoming more important and that the universities of [redacted] required these in their tenders. GS used a solution called [redacted]. There is an alternative from a local supplier, but this is expensive and also not very robust. GS tried to buy a more reliable system, LaundryView, from the Alliance dealers (JLA and Armstrong), but was declined. Their app is not available until the next year and GS does not know the precise costs yet, but budgeted £[redacted] per laundry room.
17. GS said that another obstacle and a significant change in the market is that private accommodation providers have been growing and that those providers look for one supplier which is able to supply all of their sites across the country and hence national coverage is needed. Those providers are also less visible as regards new contracts and generally inquiries from suppliers are declined.
18. GS is listed on the ESPO framework, but GS said that it has never had a single inquiry from the higher education sector via this framework.
19. GS said that customers were worse off because of the merger between JLA and Washstation in the longer term, because of lack of choice. GS and Armstrong will do their best to compete, but without Washstation there is not much competition left.