

JLA/WASHSTATION MERGER INQUIRY

Minute of Discussion with Maxwell Adam on 11 June 2018 at 11am-11:45am

Background of Maxwell Adam

1. Maxwell Adam (MA) explained that it currently is not supplying to the higher education (HE) sector, ie universities and student accomodations. MA sell commercial laundry equipment mainly to the care home sector and boarding schools where laundry rooms are centralised and the laundry is done by staff. They supply only a a small number of coin-operated vending machines to their customers, eg key worker accommodation sites. MA does not have any revenue sharing agreements. The equipment MA supplies is sold or leased.
2. MA mainly supplies commercial equipment. Those machines have a load of 6kg up to 40-50kg per washing load and are intended to last 10-12 years with 10 daily washes on average. The majority of MA's sales is generated by Electrolux machines (70-80%) and MA is the largest Electrolux dealer in the UK.

The higher education sector

3. The machinery in managed laundries is designed to last for around five years and a daily average use of five times and have a load of 8-9kg. The equipment throughout that market is made by Alliance or under one of its brand names. That type of machine is occasionally used by MA and only represent a very little of its overall activity (less than [0-5]%). MA sources these machines from JLA or Armstrong, who are the dealers of those machines.
4. MA explained that collecting the cash from the machines in the HE was very burdensome for the universities, and the model of managed laundry services, ie taking care of the collection of money and maintenance of the machines by the supplier and sharing the revenue, was imported from the US to address this. Although the issue of money collection has now largely been solved by cashless systems, HE customers stick to what they know, ie vend sharing. In the beginning, HE customers would receive 30-40% of the revenues. Currently the commission levels paid to HE customers are significantly higher.
5. MA has never been involved in a tender with a university and would not consider offering managed laundry services in their current form, ie vend sharing agreements.

Barriers to enter the HE sector

6. MA said that the two reasons why it is not interested supplying HE customers is that the supplier will not get any money until one month after the contract has started and the return on the investment takes a long time, around two years if not more. For example, for a higher education customer with 30 washers and dryers, there would be an upfront

cost of £100,000 plus the installation costs. That makes it impossible for MA to come into that market.

7. In addition, when JLA and Washstation started competing against each other the commission level paid the HE customers increased and the percentage of the revenue was then in favour of the HE customer, eg universities would get 60-70% of the revenue. That made it even more impossible for MA to enter the market.
8. In addition to the costs of the machines, HE customers also require card reading systems (for payments) and remote control and a company that wants to enter that market has to obtain a payment system (which is not available from the dealers of the machines), connect it to the machines and make it work.
9. MA said that it is a smaller company and has softer revenue targets which prohibits deals that involve the mentioned upfront costs.
10. Recently, MA has noticed quite a stir in the HE sector and MA [redacted] in discussion with two possible HE customers that approached MA to supply them and who are not happy about their current supplier.
11. MA said that the two HE customers will/have issue(d) a tender and MA expects to hear from those customers shortly, one in [redacted] the other one in [redacted]. MA said that it intends to source [redacted].
12. The model that MA is proposing to those potential customers entails that the HE customers will lease the equipment (including a contactless system) and MA will service the equipment for a service fee, while the HE customer retains the revenue (a fixed rental agreement).
13. As regards the cost of the payment system, MA explained that it needs to buy card readers which are not that expensive, and the provider charges a monthly fee and a small percentage fee of each transaction made through the system. These upfront costs are not that high and comparable to buying a coin operated machine.
14. In terms of engineer expansion, MA said that it usually offers an eight hour response service, and there is no problem to employ additional engineers if more are needed. MA said that it currently has [redacted] and operates in London and the South East. MA added that it has third party engineers that it can employ and third party engineers are also usually used for the installation of machines. Therefore, there are no real bottlenecks in that regard.
15. As regards refurbishing, MA does not more than the “boxing” of the machines with panels so that the machines look tidy. MA also did not offer to do cleaning services, as HE customers have cleaning personnel anyhow (this originated from the coin collection era as an extra, but not really necessary anymore).
16. In terms of remote viewing apps that JLA is offering, MA said that it thought that these items were rather “a nice to have” than a must. Students could either look whether a machine was free or the machines need to be adapted and connected to a system that would allow to check the availability of the machines. If the customer really wanted this, MA would look into the costs and those costs would need to be included in the vend price or paid by the HE customer.

17. MA said that it currently has no plans to be more pro-active as regards approaching possible customers in the HE sector, but that could change if MA were to win a contract with a HE customer.
18. As regards other potential competitors that might consider entering this space, MA said that Armstrong might become more active.