

## **JLA/WASHSTATION MERGER INQUIRY**

**Summary of hearing with UPP Residential Services Limited on 21 May 2018 at  
14:00 – 15:30**

### **Background**

1. UPP Residential Services Limited (“UPP”) is a provider of student accommodation infrastructure and support services in the UK. It has approximately 35,000 rooms in operation or development through longterm partnerships with 16 universities in the UK. UPP procures managed laundry services for its student accommodation.

### **Tender requirements and features that are important to UPP when choosing which provider to appoint**

2. UPP said that it conducted its tender process in conjunction with its university partners. UPP indicated that the scope of its tenders varies depending on the objective of the site as a whole, and noted the possibility of extending or renegotiating with the incumbent provider in circumstances where three or four contracts run in parallel for different halls of residence and all end at different times. By extending or renegotiating with the incumbent supplier, UPP would have the option of re-tendering the site as a package. UPP indicated that it does not advertise its tenders using an open platform and noted that it does not tender managed laundry services alongside other services.
3. UPP said that the vend price is set following consultation with its university partners. It indicated that providers have limited scope to challenge the vend price.
4. UPP indicated that sourcing and initial installation would be required from providers, as well as satisfactory response times and customer service levels.
5. With regard to sourcing, UPP said that it would consider the types of machine, the utility usage and the specifications of those machines, because the utilities are paid for by the accommodation provider and therefore it seeks machines that are cost effective in their utility usage.
6. In terms of services, UPP said that it places value on a preventive maintenance system and would expect a provider of managed laundry

services to handle and source the payment infrastructure for the machines. UPP noted that response times and the level of customer service are two

very important factors when considering a provider to appoint. UPP indicated that it expects a response time of 24 hours, if not a same-day response, from appointed providers. UPP also stated that where its contracts are longer than 8 years, it expects machines to be replaced on an 8-yearly cycle.

7. UPP indicated that reputation and track record is a feature that it factors into its consideration when procuring managed laundry services. If UPP appointed a new entrant to provide managed laundry services, it would undertake a due diligence process and take steps to mitigate the possible failure of the business, as well as failure to provide the services contracted for to a satisfactory standard. However, UPP noted that students, as endusers, would not necessarily benefit directly from remedial action taken by UPP. Ultimately, UPP said that it is a balancing act between providing students with a level of service commensurate to the level that they expect versus a commercial business operation.
8. As an added benefit, UPP noted that a software platform for end-users to ascertain whether machines are in use would be desirable to enable students to check machine availability in advance. In this regard, UPP referred to the LaundryView software package offered by Circuit as an example of a platform, which allows end-users to check machine availability live.
9. When questioned which suppliers can meet these requirements, UPP indicated that with the exception of Planned Preventive Maintenance, only JLA can meet these requirements. However, UPP said that Washstation previously offered a preventive maintenance regime whereby an engineer would inspect all of the machines and run a test wash weekly, and ensure that the soap hatches and dryer lint traps were cleaned. UPP noted that while this is not a burdensome undertaking, it ensures that the supplier is on-site weekly to check the machines. Additionally, UPP noted that another engineer would inspect the machines on a monthly basis and that a designated engineer would strip down the dryer venting and ducting biannually, while all machines would be surveyed for potential refurbishment on a yearly basis.

### **Alternative suppliers of managed laundry services**

10. When questioned whether James Armstrong and Company Ltd (“Armstrong”) was able to meet these requirements, UPP indicated that Armstrong had supplied managed laundry services to some of its student accommodation in the past, but that Armstrong had lost its contracts with UPP. UPP said that while Armstrong’s ongoing [REDACTED].

11. However, UPP noted that recent due diligence on other potential suppliers has indicated that Armstrong [REDACTED]. UPP indicated that [REDACTED], it believed that [REDACTED] Armstrong [REDACTED]. [REDACTED], UPP indicated that it did not consider that the availability of Armstrong as an alternative provider that is improving its offering [REDACTED].
12. UPP indicated that JLA's refusal to reduce the length of some of its contracts with UPP (some of which are up to [REDACTED] years in length) and JLA's confirmation following the merger that it will bid for tenders in its capacity as Circuit rather than Washstation, support its belief that JLA would not be flexible in changing its offering.
13. When questioned why Washstation was willing and able to offer a product that UPP perceived to be superior to other suppliers' offerings, UPP suggested that Washstation may have had smaller overheads than other suppliers and noted that it uses a different machine to other suppliers.
14. UPP indicated that Goodman Sparks may be able to provide some sort of offering, but noted that [REDACTED].
15. UPP said that it could consider providing managed laundry services inhouse to its student accommodation provided that the return on investment and capital expenditure was at least on par or better than what it could get from Circuit at the end of a five- to eight- year period. UPP indicated that this option was not previously available, because of the security measures involved with handling cash, but that the availability of cashless or contactless payment infrastructure has made this a possibility.

**The barriers faced by other suppliers entering the higher education sector from providing managed laundry services to customers in other sectors**

16. UPP explained that potential competitors may not be willing to enter the market for the supply of managed laundry services to higher education (HE) customers due to the revenue or profit margin not being sufficient to warrant entry based on the revenue-share business model (variable rental agreements), particularly due to JLA's strong position in the market.
17. When questioned whether UPP would be interested in purchasing the provision of managed laundry services on a fixed rental basis, UPP explained that the most important factor for higher education customers is the ongoing service, in the sense that reliable machines that are well maintained are installed in laundrette facilities and that there is a suitable response callout for student accommodation purposes. Provided that the service level was satisfactory, UPP confirmed that they would be interested in the provision of managed laundry services on a fixed rental basis. However, UPP indicated that if the same level of service was provided and there was a choice between the supply of managed laundry services on both a fixed and a revenue-share basis, it would prefer the revenue-share model.

## **Effects of the merger on commissions and service quality**

18. UPP said that Washstation had more of a customer focus than Circuit and that it provided a lot of things that Circuit was not providing in respect of soft services before the merger. Additionally, UPP noted that Washstation's commission was higher than that of Circuit in respect of the revenue given back to the accommodation provider. UPP indicated that these factors were instrumental in Washstation starting to win more of its business.
19. Having confirmed that UPP has contracts with both Washstation and JLA for the provision of managed laundry services, UPP said that the level of service has declined. UPP indicated that it believed that this was due to the acquisition by JLA rather than any commercial disruption caused by the transition. UPP said that it has had to push back on the level of service provided by JLA and has reiterated JLA's contractual obligations in respect of the ongoing maintenance of the machines under its Washstation contracts.
20. Based on the standard of the services provided since the merger and the loss of Washstation as a competitor, UPP believed that the market for managed laundry services has become less competitive.