Competition & Markets Authority

Completed acquisition by JLA New Equityco Limited of Washstation Limited

Provisional findings report

Notified: 10 August 2018

The Competition and Markets Authority has excluded from this published version of the provisional findings report information which the inquiry group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [✄]. [Some numbers have been replaced by a range. These are shown in square brackets.] [Non-sensitive wording is also indicated in square brackets.]

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SUMMARY

Background: the Parties and the industry in which they operate

1. On 16 April 2018, the CMA referred the completed acquisition by JLA New Equityco Limited (JLA), through its subsidiary Vanilla Group Limited, of Washstation Limited (Washstation) (the Merger) for an in-depth (phase 2) inquiry by a group of CMA panel members (the Group).

2. JLA and Washstation (together, the Parties) overlap primarily in the supply, within the UK, of managed laundry services to higher education customers, such as universities, colleges and student accommodation providers, through so-called vend share agreements.

3. Vend share agreements are one of three types of commercial laundry services agreements. Under a vend share agreement, the provider supplies and installs the machines and carries out repair and maintenance works. The customer does not pay rent to the provider, but instead receives an agreed percentage of the revenues generated from end-users of the machines in the form of commission from the provider.

4. The other two types of commercial laundry services agreements are (i) fixed rental agreements; and (ii) maintenance and repair services agreements. Together, fixed rental agreements and vend share agreements are commonly referred to as managed laundry services.

5. JLA, through its various subsidiaries, offers commercial laundry services (including managed laundry services), catering, heating and fire safety services to a variety of customers, such as care homes, schools, hotels, universities and hospitals. JLA offers managed laundry services to higher education customers through its subsidiary Circuit Launderette Services Limited.

6. Washstation is active in the provision of managed laundry services under vend share agreements, which it supplies to two types of commercial customers: higher education customers and hospitality and leisure customers.

7. The main providers of managed laundry services under vend share agreements to higher education customers in the UK, other than the Parties, are James Armstrong and Company Ltd (Armstrong), which was acquired by Hughes Electrical Ltd (Hughes) in January 2018, and Goodman Sparks Ltd.

The investigation

8. As part of our investigation, we received several submissions and responses to information requests from the Parties, held in depth-hearings with both higher education customers and providers of managed laundry services and commercial laundry services, and carried out an extensive review of internal documents held by the Parties. We also considered the results of customer research commissioned by the CMA.

Relevant merger situation

9. On 18 May 2017, JLA acquired all of the issued share capital of Washstation. We are satisfied that the Merger has resulted in a relevant merger situation because this transaction has resulted in the Parties ceasing to be distinct, and as a result they have a combined share of supply of more than 90% in the provision of managed laundry services to higher education customers under vend share agreements in the UK.

Counterfactual

10. To assess the effects of the Merger on competition we needed to consider what the competitive situation would have been absent the Merger (the counterfactual). In order to determine the counterfactual, we have considered, based on the evidence, what the most likely scenario would have been had Washstation not been acquired by JLA.

11. We considered two possible counterfactual scenarios in relation to the constraint from Washstation absent the Merger: (i) whether Washstation would continue to operate in the market as it did prior to the Merger (ie pre-Merger conditions), or (ii) whether it would continue to operate in the market but impose a lesser competitive constraint on JLA, as advocated by JLA.

12. We have provisionally found that Washstation would have continued to compete in the supply of managed laundry services to higher education customers as it had done prior to the Merger. This provisional finding is based on the following evidence and analysis:

    a. due diligence commissioned by JLA on Washstation's business indicates that the business was forecast to grow (revenues, profitability and cash flow) and our analysis indicates that Washstation had been on a growth path since 2010;

b. while some additional finance may have been required to continue to develop the business and its continued expansion, we have seen some evidence that this was available to Washstation;

c. Washstation's commission rates (ie the percentage of vend revenues paid to higher education customers) were not significantly different from those of JLA and while there may have been some uneconomic contracts, these are limited in number and do not appear to have been such as to cast material doubts on the ability of the Washstation business to continue to compete as it did pre-Merger; and

d. while there have been some instances of customer dissatisfaction, this has resulted in the loss of a limited number of Washstation contracts and has not significantly weakened Washstation's ability to compete as it did pre-Merger.

13. We also assessed whether Hughes' acquisition of Armstrong was sufficiently likely at the time of the Merger to be incorporated in the counterfactual. We provisionally found that Hughes' expansion plans for the Armstrong business appeared, to some extent, to be linked to the Merger. Accordingly, the most likely counterfactual in relation to Armstrong is Armstrong continuing to operate under the pre-Merger conditions of competition.

14. Our provisional view is that the most likely counterfactual is the pre-Merger conditions of competition, with regard to the competitive constraint imposed on JLA by both Washstation and Armstrong.

Market definition

15. The purpose of market definition in a merger inquiry is to provide a framework for the analysis of the competitive effects of the merger.

16. The primary overlap between the Parties is in the provision of managed laundry services to higher education customers under vend share agreements in the UK.

17. In establishing whether the relevant product market should be broader than the activities in which the Parties overlap we assessed:

a. the extent to which other means of procuring laundry services are demand-side substitutes for vend share agreements, and so represent credible outside options to customers; and

b. the extent to which providers of managed laundry services to other sectors and through other contractual models are able to supply higher education customers, and so represent credible outside options to those providers with higher education experience.

18. Our investigation revealed that the majority of customers do not consider that alternative types of procurement, such as fixed rental agreements or outright purchase, to be alternatives to vend share agreements. In particular, almost all higher education customers used (and continue to use) vend share agreements for the supply of managed laundry services and very few customers have previously switched from vend share to fixed rental agreements. Some higher education customers expressed their preference for vend share agreements, mainly because they avoid the need for capital outlays by the customer (and the associated financial risks), do not require customers to assume operational responsibility for the laundry service, and provide a source of income (with the vend revenues generated by students being shared between service providers and the higher education customers).

19. We also provisionally found that higher education customers have some different requirements from customers in other sectors, due to their end- user profile, which may limit the ability of providers active in other sectors to quickly supply them (eg in terms of payment systems, online services and refurbishment). The evidence also indicated that overall, the set of firms active in serving the higher education sector is broadly different from the set of firms serving customers in other segments.

20. With regard to the geographic scope of the market, we have aggregated all contracts together and analysed the aggregate constraint that each managed laundry service provider within the higher education sector may impose on each other. Therefore, we have provisionally adopted a national geographic market and not found it necessary to define a market narrower than the UK.

21. In summary, we have provisionally concluded that the relevant market should be defined as managed laundry services to higher education customers under vend share agreements in the UK.

Competitive assessment

22. We assessed the competitive effects of the Merger, including evidence on the strength of the constraints the Parties imposed on each other and the constraint imposed by other providers. To do this, we considered: (i) market shares over time and in respect of new contracts; (ii) contract sizes and commission rates; (iii) who JLA lost contracts to ('switching ratio analysis'); and (iv) evidence from internal documents, third party hearings and customer

research on providers' strengths and weaknesses and the closeness of competition between them when contracts were awarded.

23. Taken together, the evidence on the effects of the Merger on competition shows that Washstation competed strongly against JLA, with Armstrong representing a much weaker constraint.

24. Evidence from past tenders and contract negotiations shows that JLA and Washstation were each other's closest competitor, with Washstation accounting for the large majority of contracts lost by JLA. While Armstrong was the other most credible competitor, the available evidence indicates that Armstrong represented a weak constraint on JLA. Self-supply represented a very weak constraint.

25. Overall, all third parties the CMA had hearings with identified JLA and Washstation as close competitors. Customers only identified JLA, Washstation, Armstrong and Goodman Sparks as competitors in the supply of managed laundry services under vend share agreements (while some customers had, in some cases, received expressions of interest from other providers, none of these providers had ultimately been awarded a contract).

26. The submissions from competitors and other providers of laundry services indicate, at this stage, that, with the exception of Armstrong, other providers exert a very weak constraint on JLA. This is because alternative providers of laundry services: (i) currently only serve a very small number of higher education customers and/or are relatively small companies, with limited financial resources and/or a limited geographic presence, and (ii) are not actively competing for these customers and, in some cases, do not offer vend share agreements.

27. Internal documents also show that JLA perceived Washstation as a close competitor and took into account the risk of losing higher education customers to Washstation when formulating its offer. These documents also show that higher education customers used Washstation's presence as a bargaining tool when negotiating with JLA. JLA also considered Armstrong to be a competitor for some customers, with little evidence of JLA monitoring other providers.

28. The results of the CMA's customer research indicate that: (i) JLA holds an influential position in this market and that JLA and Washstation have the technology to offer a range of payment methods and online services, which other providers appear not to have; (ii) JLA and Washstation are the two main providers of managed laundry services, with the other most credible alternative being Armstrong.

29. On the basis of the evidence we have reviewed, we provisionally consider that the Merger is likely to result in a substantial lessening of competition (SLC) in the market for managed laundry services to higher education customers under vend share agreements in the UK, subject to any countervailing factors.

30. For new contracts, the Merger may give JLA the incentive to deteriorate any element of the competitive offer, including both lowering the commission paid and service levels provided to customers. For existing contracts, the Merger may give JLA the incentive to deteriorate service levels, as it would have less incentive to offer more than the minimum services required under its contractual terms with customers.

Countervailing factors

31. We considered whether entry and/or expansion or buyer power could prevent an SLC from arising in this case.

32. Our review of the recent history of entry into the market indicated that there have been no recent examples of significant entry or expansion, apart from Washstation itself. Therefore, we examined specific barriers to entry and expansion which would be faced by any provider who wished to provide these services.

33. We provisionally found that a number of factors make entry and expansion difficult for some providers. These include: the cumulative cost of providing and implementing the services required by higher education customers (eg refurbishment, online and cashless payments services), the risk borne by the provider with vend share agreements, and the importance some customers attach to experience and reputation.

34. Even if these barriers to entry and expansion could be overcome by an experienced and well-financed party, higher education customers in general exhibit strong preferences in relation to the reputation of a prospective provider and the services that the provider should be able to offer.

35. Moreover, providers without an established presence in the sector may find it difficult to identify opportunities that are not publicly tendered (which account for a significant proportion of all potential opportunities). It can be difficult and costly for other providers, for example, to replicate JLA's established knowledge of the market, including when most existing contracts come up for renewal. Combined with the long-term nature of managed laundry contracts, the lack of transparency is likely to make initial entry more difficult, even for firms who are well-established in providing laundry services to other sectors. Therefore, the lack of transparency around opportunities available to

competitors is likely to increase the costs of entry and reduce the likelihood of successfully winning contracts, even in a growing market.

36. Collectively these barriers may be material, costly to overcome and may deter both entry and expansion by existing providers. However, we cannot, in principle, exclude the possibility that they could be overcome by a proactive and determined provider, with the necessary financial backing. We therefore assessed whether any third parties have plans to enter and expand that are timely, likely and sufficient to prevent any SLC resulting from the Merger.

37. The only credible candidate for expansion we identified is Armstrong. While Armstrong has plans to expand its geographic coverage and now has access to greater financial resources, the evidence we have considered raises significant doubts about the robustness of its expansion plans in higher education. In particular, Hughes does not currently appear to have formulated a concrete plan for Armstrong's expansion in the higher education sector. Moreover, Armstrong lost its biggest ongoing contract and failed to win any large higher education contract. It also did not bid for any private higher education contracts.

38. Taking the evidence in the round, our provisional view is therefore that even if Armstrong may expand in the future, it is not likely that Armstrong would achieve a sufficient scale in a timely manner such that it would prevent any SLC arising.

39. We also provisionally found that no other possible entrant identified by JLA was likely to enter or expand in a timely and sufficient manner to constrain JLA such that it would prevent any SLC arising.

40. We received no evidence that buyer power or efficiencies would offset our concerns.

Provisional conclusion

41. We have provisionally concluded that the Merger has resulted, or may be expected to result, in an SLC in the market for the supply of managed laundry services to higher education customers under vend share agreements in the UK.

Provisional findings

1. The reference

1.1 On 16 April 2018, the Competition and Markets Authority (CMA) referred the completed acquisition by JLA New Equityco Limited (JLA), via its subsidiary Vanilla Group Limited (Vanilla), of Washstation Limited (Washstation) (the Merger) for an in-depth (phase 2) inquiry. In exercise of its duty under section 22(1) of the Enterprise Act 2002 (the Act), the CMA made a reference to its chair for the constitution of a group of CMA panel members (the Group) in order to investigate and report on the following questions in accordance with section 35(1) of the Act:

(a) whether a relevant merger situation has been created; and

(b) if so, whether the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition (SLC) within any market or markets in the UK for goods or services.

1.2 Our terms of reference, along with information on the conduct of the inquiry, are in Appendix A. We are required to publish our final report by 14 October 2018.

1.3 This document, together with its appendices, constitutes our provisional findings, published and notified to JLA in line with the CMA's rules of procedure.[1] Further information relevant to this inquiry, including non-confidential versions of the submissions received from JLA, can be found on the inquiry case page.

1.4 Throughout this document, where relevant, we refer to JLA and Washstation collectively as 'the Parties'. Where we refer to Parties' views, we recognise that although the submissions were provided to us by JLA (as the Merger has been completed), they contained data from both JLA and Washstation. Where we have received information relating to Washstation from the former Washstation owner, Mr Copley, we refer to that as having been provided to us by Mr Copley.

[1] CMA rules of procedure for merger, market and special reference groups (CMA 17), Rule 11.

2. The Parties

Background: managed laundry services and commercial laundry services

2.1 The Parties are both active in the supply of commercial laundry services. As explained in more detail below, the Parties overlap primarily in the supply of managed laundry services to higher education customers, such as universities, colleges and student accommodation providers, under vend share agreements in the UK.[2]

2.2 In broad terms, commercial laundry services can be supplied under three different types of agreements:

(a) Fixed rental agreements: the provider rents the non-domestic washing machines and tumble dryers (machines) to a customer and carries out repairs and maintenance works. The customer pays a fixed monthly fee and retains any payments made by end-users for use of the machines.

(b) Vend share agreements: the provider supplies and installs the machines and carries out repairs and maintenance works. The customer does not pay rent to the provider, but instead receives an agreed percentage of the revenues generated from end-users of the machines in the form of commission from the provider.

(c) Maintenance and repair services agreements: the customer owns the machine and the provider carries out repairs and maintenance works (these agreements are often signed alongside a sales agreement in respect of machines).

2.3 Fixed rental agreements and vend share agreements can be referred to as managed laundry services. Customers for managed laundry services offer a laundry facility to their own end-users and provide a space for a managed services provider to install the required machinery. The provider usually retains ownership of the machinery and manages the laundry operation on behalf of the customer, including breakdown services and responding to end-user queries.

[2] In this report, "higher education customers" refers to customers who are purchasing managed laundry services for the use of students in higher education. This includes universities, colleges, private student accommodation providers, and managed student accommodation providers. References to the "higher education sector" are to be construed accordingly.

JLA

2.4 JLA, through its various subsidiaries, offers commercial laundry services (including managed laundry services), catering, heating and fire safety services to a variety of customers, such as care homes, schools, hotels, universities, private providers of student accommodations and hospitals. JLA offers managed laundry services through Circuit Launderette Services Limited (Circuit). JLA also supplies the equipment relating to the above services, ie various white good items such as washing machines, tumble dryers, ovens, refrigerators to its customers and to other providers.

2.5 Hg Capital[3] became the majority shareholder of JLA in early 2010. On 14 May 2018, Hg Capital announced that it had agreed a sale of JLA to Cinven.[4] We understand that the completion of this transaction is conditional on approval by the Financial Conduct Authority.

2.6 JLA was set up in 1973 and was initially active in the commercial laundry sector, principally through the sale of machines. JLA then expanded into the supply of commercial laundry machines under fixed rental and vend share agreements,[5] together with the supply of parts and consumables (eg detergents), as well as the servicing of third party-owned machines. JLA subsequently expanded into the commercial catering sector in 2011, the commercial heating sector in 2017 and the fire safety equipment sector in March 2018.

2.7 JLA had around 760 employees in 2017. JLA operates 9 offices across Great Britain (mostly located in the North West of England) and 2 storage depots located in the South West of England.

2.8 JLA recorded turnover and gross profit of approximately £[✂] million and £[✂] million respectively in the financial year ending 31 October 2017. It is forecast to generate turnover and gross profit of £[✂] million and £[✂] million respectively in the current financial year (see **Figure 1**).[6]

Figure 1: JLA's revenue and gross profit between 2015-2017/18

				£m			*% change*
	2015A	*2016A*	*2017A*	*2018F*	*2015/16A*	*2016/17A*	*2017/18F*

[3] Hg Capital is a private equity firm focussed on investments in the technology, services and industrial technology sectors.
[4] The majority interest in the JLA business, including all of its subsidiaries (such as Vanilla and Washstation) is to be acquired by Wharfedale Bidco Limited, a company controlled by funds managed by Cinven.
[5] Also known as variable rental agreements.
[6] Growth from 2017 to 2018 is expected to be driven by continued organic expansion as well as by strategic acquisitions.

Turnover	98	107	118	[✄]	9%	10%	[✄]%
Gross Profit	50	56	63	[✄]	12%	12%	[✄]%

Source: Baird Information Memorandum, page 15, Annex 8.3, s. 109 response dated 16 April 2018.

Note: Figures before 2018 are actual figures. Figures for 2018 are full year forecasts based on internal management information.

Products and services

2.9 JLA generates much of its revenue from the provision of commercial laundry services (see **Figure** 2).[7]

Figure 2: JLA revenue by activity

[✄]
Source: Due Diligence Report
Note: Data covers the financial years ended October 2018 and represents a breakdown of the turnover figures in Figure 1.

2.10 JLA's customers are largely institutions with on-site laundry facilities and/or catering equipment, who do not have an in-house service capability.

2.11 JLA's customers are located across the UK. As of December 2017, JLA had approximately [✄] customers in the higher education laundry sector.

2.12 In addition to the commercial laundry services described above in paragraph 2.2 and 2.4, JLA also provides the following auxiliary services to its higher education customers as part of its vend share package:

(a) Various payment solutions, such as coin, card and cashless systems (eg Nayax);

(b) an app that can be used by students to pay for their laundry and that tracks students' washing, such as the stage reached in either the washing or drying cycle;

(c) An online viewing system (Circuitview communication system) that shows live online machine availability for students, automatic fault reporting and weekly statistics on historic usage for higher education customers; and

(d) Bespoke refurbishment of laundry rooms, eg with colour schemes, vinyl flooring, TV, coffee tables.

[7] Commercial laundry services comprise: Laundry fixed rental, laundry vend share, laundry COMs and laundry product sales. "COMs" refers to Customer-Owned Machines which JLA service.

__Commercial laundry customers__

2.13 The majority of JLA's commercial laundry revenue is generated by customers in the higher education and healthcare sectors.

2.14 In the commercial laundry sector, JLA's revenue from fixed rental agreements is generated from customers in a range of sectors, including healthcare ([40-50]% - £[✂] million), housing ([10-20]% - £[✂] million) and hospitality and leisure ([10-20]% - £[✂] million).[8] Higher education customers generate roughly £[✂] million (0-5%) of JLA's revenue from fixed rental agreements.

2.15 In contrast, [80-90]% (£[✂] million) of JLA's revenue from vend share agreements in the commercial laundry sector is generated from higher education customers.[9] The remaining [10-20]% (£[✂] million) of revenue is generated from hospitality and leisure customers.[10]

2.16 JLA told us that its average gross margin[11] was [✂] higher on fixed rental agreements than on vend share agreements. JLA told us that the average net margin[12] on vend share agreements was [✂]%.

Strategy

2.17 As well as targeting new customers, JLA aims to generate organic growth and increase its revenue through the following methods:

(a) [✂].

(b) [✂].[13]

(c) [✂].

2.18 In recent years, JLA has also sought to generate growth in its customer base through a series of acquisitions (having made five acquisitions in the commercial laundry sector since 2013, which are set out in Appendix C).

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[8] Figures for JLA relate to the financial year ending 31 October 2017.
[9] Total revenue from vend share agreements in FY17 is £[✂] million. The reports show that vend share agreement revenue in FY17 was £[✂] million.
[10] Figures for JLA relate to the financial year ending 31 October 2017.
[11] Gross margin represents gross profit as a percentage of revenue. Gross profit is revenue minus the direct cost of sales (eg labour, materials and direct overheads). JLA's gross margin takes into account the depreciation of fixed assets, given that managed laundry is an asset intensive business.
[12] Net margin represents net profit as a percentage of revenue. Net profit is gross profit minus the indirect costs of running the business.
[13] [✂].

Washstation

2.19 Washstation is a managed laundry service provider, established in 2008, predominantly serving customers in the higher education sector and, to a limited extent, the hospitality and leisure sector.

2.20 Prior to the Merger, Washstation employed ten staff members, including six engineers, and had one office in Guildford and one warehouse in Alton.

2.21 JLA has grown its business significantly since 2010 (see **Figure** 3).

Figure 3: CMA analysis of Washstation revenues: 2010 – 2017

[✄]

Source: CMA analysis of Washstation revenues on active contracts

2.22 Figure 4 below shows the data relating to Washstation's most recent financial performance. It indicates that Washstation experienced significant growth between 2015 and 2016, due to an increase in new contracts, generating turnover of £[✄] million in 2016. Its growth was forecast to continue in 2017.

Figure 4: Washstation trading summary

[✄]

Source: JLA

Note: LTM17 refers to the last twelve months of trading ending 31 March 2017. The financial year end of Washstation is 31 December.

2.23 Mr Copley, the former owner and founder of Washstation, previously ran Circuit before it was acquired by JLA in 2002.[14]

2.24 Mr Copley told us that when he started the Washstation business he was able to leverage previous relationships with equipment manufacturers, as well as the knowledge of and links to higher education customers he established since 2002. Mr Copley explained that, after an initial period of establishing its presence in the market, Washstation was able to begin securing contracts from its second year of operation.[15]

[14] Summary of hearing with Mr Copley, paragraph 1.
[15] Summary of hearing with Mr Copley, paragraphs 1, 5 and 18.

Products and services

2.25 Washstation provides managed laundry services under vend share agreements only.

2.26 As part of its managed laundry services, Washstation offers auxiliary services to its higher education customers, such as:

(a) Various payment solutions for students, including contactless card systems and cashless payment solutions (Nayax);

(b) Connect 360 Online machine viewing which enables students to view machine availability online;

(c) Bespoke refurbishment of laundry rooms, eg with specific themes suggested by the customer.

Customers

2.27 Washstation supplies two types of commercial customers: higher education customers (which accounts for [90-100]% of Washstation revenues, approximately £[✂] million) and hospitality and leisure customers ([5-10]% of revenues, approximately £[✂] million).[16]

2.28 **Figure** 5 below summarises the number of contracts, customers and machines that Washstation had in the higher education sector, at the date of the Merger:

Figure 5: Washstation's number of contracts, customers and machines

Number of contracts – May 2017	*Number of customers – May 2017*	*Number of machines – May 2017*
[✂]	[✂]	[✂]

Source: JLA

2.29 The majority of Washstation's customers are based in London and the Midlands although Washstation also serves customers in the North of England and Scotland.

Strategy

2.30 Mr Copley told us that Washstation's sales strategy was based on service and not on commission levels (eg Washstation's engineers used to visit the laundry rooms regularly to repair machines and prevent issues and

[16] Figures refer to revenues in the year ended 31 December 2016.

Washstation also used to engage in promotional activities for the students). Mr Copley also told us that, absent the Merger, Washstation would have continued to operate with the same strategy as pre-Merger.[17] This is further discussed below in more detail in the Counterfactual section.

3. The industry in which the Parties operate

Market size and main providers

3.1 As we explain below, the Parties' activities predominantly overlap in the supply of managed laundry services to higher education customers under vend share agreements in the UK.

3.2 Based on the share of supply data submitted to us by JLA, we estimate that the total value of these services in the UK, based on gross revenues, amounted to approximately £[25-30] million in 2017.[18] Using net revenue figures (ie excluding the commission[19] paid by providers to their higher education customers under the vend share agreements), the size of the market is approximately £[15-20] million.

3.3 The main providers of managed laundry services under vend share agreements to higher education customers in the UK other than the Parties are James Armstrong and Company Ltd (Armstrong), which was acquired by Hughes Electrical Ltd (Hughes) in January 2018 and Goodman Sparks Ltd (Goodman Sparks). Appendix B provides a high-level description of the businesses of those two competitors. That Appendix also describes other actual or potential competitors in the provision of commercial laundry services mentioned by JLA, which either have a very small presence in the supply of managed laundry services (eg Photo-Me International plc (Photo-Me)), or according to JLA, could start supplying managed laundry services.

Inputs to the supply of managed laundry services

3.4 Managed laundry service providers acquire the required machines (ie washing machines and tumble dryers) either directly from an Original Equipment Manufacturer (OEM), such as Alliance or Maytag,[20] or from a local

[17] Summary of hearing with Mr Copley, paragraph 22.
[18] Data in paragraph 10 refers to the calendar year rather than the financial year. For statutory reporting purposes, JLA's financial year is from November to October.
[19] We assumed an average commission rate of around [✂]%.
[20] Maytag is a subsidiary of the Whirlpool Corporation.

distributor. Both JLA and Mr Copley told us that, when purchasing directly from an OEM, a stackable washer and dryer unit can be purchased for approximately £[✂].[21]

3.5 JLA is currently a local distributor in the UK for Alliance Laundry Systems LLC (Alliance) and Washstation used to be a distributor of Maytag in the UK. When acting as a distributor to third parties (eg smaller traders in the UK), JLA told us that machines were priced such that JLA aimed to achieve a gross margin of [✂]% on the purchase price from an OEM.[22]

3.6 Generally, providers must commit to an agreed volume of purchases to obtain the supply of machines directly from an OEM. For example, Mr Copley, told us that Washstation's agreement with [✂].

3.7 Almost all higher education customers require an end-user payment system which may be coin-operated, token-operated or cashless (eg contactless payment, card payment, top up cards) with higher education customers typically offering a range of payment systems to students.[23]

3.8 The payment mechanism can be integrated into the machines by the OEMs or can be retrofitted by third parties. We understand that the various payment mechanisms are compatible with all machines. Some of the cashless payment solutions offered by providers such as JLA are available on an end-user's phone and can be topped up via an app.

3.9 A provider may also offer remote monitoring systems which allow the user to check machine availability and progress of a load remotely.

3.10 A provider of managed laundry services must also have the appropriate infrastructure to provide service support to customers, ensuring the maintenance and repair of machines. Some providers outsource the installation and/or maintenance of the machines.

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[21] See Summary of hearing with Mr Copley, paragraph 20. Machine purchases are generally imported from the USA. Exchange rate movements therefore result in changes to the sterling purchase price.
[22] JLA confirmed that its gross margin on machine sales in 2018 was c. [✂]%.
[23] In the CMA's customer research, 39 out of 59 respondents selected pre-paid cards as a payment method available to their end-users, 22 selected online payments, 21 selected cash, 20 mobile payments, 8 selected debit or credit cards, 4 tokens and 3 stated that the machines were free to use.

Customers

3.11 Higher education customers include:

(a) universities and colleges;

(b) private organisations that provide student housing and related services either directly to students or on behalf of a university/college via an outsourcing arrangement (eg University Partnerships Programme[24] and Campus Living Villages)[25]; and

(c) management companies who manage student accommodation, but do not own the buildings.

3.12 Private organisations and universities are the largest customers within this sector, representing approximately £[✄] million and £[✄] million of JLA's pre-commission revenue respectively. Management companies represent approximately £[✄] million of JLA's pre-commission revenue.[26] We understand that there are more than [✄] private organisations and more than [✄] universities currently using managed laundry services in the UK.[27]

3.13 Higher education customers may offer laundry room services to their students. With some exceptions, higher education customers[28] tend to appoint one managed laundry services provider across all of their sites.[29]

3.14 As explained in more detail below in the market definition section, there are several significant differences between higher education customers and other customers.[30]

Key drivers of customer decision-making

3.15 The CMA commissioned DJS Research Ltd (**DJS**) to conduct a piece of customer research to inform its investigation. The research was based on sampling: (i) all JLA higher education customers with a contract starting in

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[24] University Partnerships Programme is a private provider of on-campus student accommodation and support services in the UK.
[25] Campus Living Villages is a global student accommodation provider. CLV is one of the largest higher education student housing providers in the world.
[26] Figures refer to the annualised (pre-commission) lifetime value of contracts currently active in April 2018. Total pre-commission revenue is c.£ [✄] million.
[27] Based on JLA's list of customers in 2017.
[28] For example, Unite and UPP.
[29] Summary of hearing with Goodman Sparks, paragraph 17.
[30] Other customers include care homes, schools, hotels, hospitals and holiday parks.

January 2016 or later; and (ii) all Washstation, Armstrong, Goodman Sparks and Photo-Me higher education customers.[31]

3.16 DJS completed a total of 59 interviews with: 41 JLA customers, 10 Washstation customers, 7 Armstrong customers and 1 Goodman Sparks customer.[32] These customers were primarily universities or colleges (36) or private student accommodation providers (19)[33].

3.17 The main objectives of the CMA's customer research were:

(a) To understand which laundry providers are used, the extent to which the same customer uses more than one provider and number of sites of each higher education customer;

(b) To ascertain the types of contract used and services provided to higher education customers;

(c) To understand the procurement process, what triggers the process and what the selection criteria are;

(d) To gauge views on providers in the market and satisfaction with existing providers;

(e) To identify potential barriers to market entry; and

(f) To understand views on the merger and its likely impact on the sector.

3.18 The full DJS Report was published on 2 July 2018. The evidence from the CMA's customer research has been taken into account where appropriate in this report.

3.19 The CMA's customer research focused on the most recent contracting episode and asked a number of questions about what was important to the customer when they chose their current provider. It appears from the results of this research[34] that:

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[31] The CMA removed those customers from the sample that it held hearings with to ensure no duplication.
[32] No customer of Photo-Me took part in the CMA's customer research.
[33] Respondents also included: a small number of companies who manage student accommodation on behalf of others (3) and others (1).
[34] Response to Question 21 a*: "What were the most important factors when choosing <PROVIDER> in preference to other providers?"* and Question 21 b: "*I am now going to read out a list of features. For each one I'd like you to tell me how important it was when choosing which provider to appoint. Please use one of the phrases on the following scale to describe your answer: 'Essential', 'very important', 'fairly important' or 'not important':*

(a) The quality and speed of the maintenance and repair service offered by the laundry provider was the most important criterion.[35]

(b) The rate of commission paid to the university and the vend price charged to the student were important factors.[36]

(c) Providing a good student experience was important, which could include the environment of the laundry room, payment options and online services.[37]

3.20 We note that the sample sizes achieved in this research are small and do not allow for robust statistical conclusions to be drawn in relation to the overall universe of higher education customers. For this reason, we adopted a qualitative rather than quantitative approach to analysing the research results, looking at broad patterns of responses without placing particular weight on individual figures (and therefore we only report any large differences between sub-groups of respondents).

3.21 During the course of our investigation we also conducted a number of hearings with a selection of third parties. These allowed us to explore their recent contracting behaviour in more detail than in the customer research and to probe how different parameters were weighted when evaluating bids. Evidence from the hearings was, in some cases, more informative than the responses to the CMA's customer research. Our hearings revealed that the following factors were important:

(a) commission rate;[38]

(b) vend price – this was a parameter of competition in some contracts but not others, as in some instances it was set by the laundry provider and in other instances by the higher education customers;

(c) speed of repairs and servicing;

(d) quality of machines – although in practice there may be little difference between different providers as long as the machines are of a similar age;

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[35] See Table 11 and 12 of DJS final report.
[36] See Table 11 and 12 of DJS final report.
[37] See Table 11 and 12 of DJS final report.
[38] While the results of the CMA's customer research indicate that commission rate and vend price ranked second as criteria of selection (after quality of service) and were considered essential by a lower number of respondents than commission rate, hearings evidence indicates that, for some customers, commissions and vend prices are important factors in their choice of provider.

(e) refurbishment of laundry rooms;

(f) payment methods including online support; and

(g) promotional activities with students.

Managed laundry contracts

3.22 The managed laundry sector, including the higher education sector, is generally characterised by long-term contracts, with a typical contract length of five to eight years. JLA told us that this period corresponds to the average lifespan of a semi-commercial machine, and is therefore intended to enable a provider to recoup the investment made in the machines installed.

New contracts

3.23 JLA told us that public sector higher education customers would generally seek to put in place new contracts through a formal or informal tender process, with some customers using tendering platforms, such as In-Tend. Higher education customers in the public sector must follow a formal tender process for contracts for the supply of management laundry services[39] if the value of these contracts is above certain thresholds.[40/]

3.24 Many higher education customers (including most private student accommodation providers) negotiate directly with managed laundry services providers. [41]

3.25 Information provided by JLA shows that most of its new contracts (including with existing customers) are secured through direct negotiation rather than public tendering (see **Figure** 6 below).

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[39] As mentioned in paragraph 7.8, the large majority of contracts do not follow a formal tender process.

[40] The Public Sector Procurement Directive (Directive 2014/24/EU) which provides rules for the procurement of goods, services and works above certain thresholds by public authorities, is implemented in England, Wales and Northern Ireland by the Public Contracts Regulations 2015 (the 2015 Regulations) and in Scotland by the Public Contracts (Scotland) Regulations 2015 and the Procurement (Scotland) Regulations 2016.
Part 1 of the 2015 Regulations applies to "public supply contracts and public service contracts awarded by sub-central contracting authorities" (ie contracting authorities which are not central government authorities) where the procurement has a value, net of VAT, estimated to be equal to or greater than the sum specified in Article 4(c) of the Public Contracts Directive. This sum is expressed in euro in the Directive, and so for the purposes of the Regulations is determined by the European Commission in pounds sterling, and published from time to time in the Official Journal in accordance with Article 6 of the Directive. The relevant thresholds in pounds sterling are £181,302 for the period from 1 January 2018, and £164,176 for the previous period, from 1 January 2016 to 31 December 2017.

[41] As set out in 7.8 and 7.9, direct negotiations account for the large percentage of the Parties business and include both new business and the roll-over of existing agreements. In particular, private student accommodation providers (see paragraph 3.11) tend use direct negotiations.

3.26 Customers generally evaluate submitted bids against certain criteria, typically considering:

(a) the level of commission to be received by them under a vend share agreement;

(b) the quality of the machines (including considerations on size and energy consumption);

(c) the quality and speed of the repair and maintenance services;

(d) whether the cost of the installation of the machines and of the refurbishment of laundry rooms is included in the contract; and

(e) the end-user payment systems provided.

3.27 Each customer will value different elements of the overall solution differently, with the relative importance and weighting for the scoring of each criterion being normally set out differently in each tender proposal.[42] The criteria that tend to be weighted more heavily are service quality, price or competitiveness and student experience (eg refurbishment and end-user payment systems), in line with the evidence from the hearings and CMA's customer survey set out above.

3.28 We understand that the speed and quality of the repair and maintenance services is particularly important for managed laundry service customers in general, including in the higher education sector.

Existing customers

3.29 JLA told us that, for existing customers, [✂].[43]

3.30 Figure 6 below shows the new contracts that JLA secured through direct negotiation with higher education customers, split by existing sites that were already serviced by JLA and new sites that were secured by JLA under the terms of the new contract.[44]

[42] For example, proposals by Oxford Brookes University, the University of Greenwich and Nottingham University weighted different factors as follows: (i) [✂]: Service Delivery ([✂]%), Student Experience Customer Care ([✂]%), Price/Income ([✂]%), Organisation and Staffing ([✂]%) and Account Management ([✂]%); (ii) [✂]: Cost Effectiveness/Competitiveness ([✂]%), Quality ([✂]%), Delivery Conditions and Support ([✂]%) and Sustainability ([✂]%); (iii) [✂]: Costings/Commissions ([✂]%); Laundrette Solution ([✂]%); Implementation ([✂]%); Contract Management including Servicing & Maintenance ([✂]%); Sustainability ([✂]%); Continuous Improvement /Added Value ([✂]%).
[43] [✂].
[44] Comparable information is not available for Washstation.

Figure 6: Directly negotiated contract revenue by existing and new sites

	2016		2017	
New or existing	*Pre-commission revenue (£)*	*Percent*	*Pre-commission revenue (£)*	*Percent*
Existing site	[✂]	[40-50]%	[✂]	[40-50]%
New site	[✂]	[50-60]%	[✂]	[50-60]%

Source: JLA

Commission rates

3.31 JLA told us that private entities and management companies receive average commissions of [✂]% and [✂]% respectively, while university halls of residence receive [✂]% commission on average. JLA also noted that there is a wide range of commission rates across each different customer type.[45]

Future evolution of the sector

3.32 JLA told us that the number of higher education and other shared accommodation sites in the UK was increasing.

3.33 JLA also submitted an independent market study by Knight Frank, indicating that the market for managed laundry services to higher education customers was growing, with 14,000 new student bedrooms to be built in 2018 and 2019.

3.34 A report into the UK student housing market, conducted by Cushman and Wakefield, states that there were 602,000 purpose-built bed spaces available to students in the UK for the 2017/18 academic year and that more students than ever (1.04 million) were studying away from home, meaning the demand pool for accommodation was continuing to grow.

3.35 The report notes that 30,000 new beds were added in the 2017/18 academic year with new supply being mostly from the private sector development (87% of new beds in 2017/18 were delivered by private accommodation providers).

3.36 Taken together, these third-party reports indicate that the number of student beds is continuing to grow, but that the rate of growth may be slowing.

[th] As part of our investigation, we have looked at the actual commission levels, which are discussed in the Competitive Effects section.

4. The Merger and relevant merger situation

The transaction

4.1 On 18 May 2017, JLA, via its subsidiary Vanilla Group Ltd (Vanilla) acquired all of the issued share capital of Washstation for £[✂] million.

4.2 We provide further background of the negotiations leading to the transaction in Appendix D.

The rationale for the transaction

4.3 JLA told us that it did not prepare extensive internal documentation prior to its decision to purchase Washstation, because:

(a) the commercial laundry business was uncomplicated and JLA, its Board and its major sponsor/shareholder at the time (Hg Capital)[46] had an in-depth knowledge of the industry;

(b) Mr Copley was known personally to members of JLA's management, including the CEO, Mr Baxter; and

(c) Washstation was a small business and its annual turnover (net of commission) of approximately £[✂] million represented less than [✂]% of JLA's pre-Merger total turnover of its whole business.

4.4 JLA told us that the Washstation acquisition was attractive to JLA because it would allow JLA to acquire a book of contracted revenues. In addition, JLA anticipated being able to benefit from cost synergies of round £[✂] million per annum.

4.5 Following the appointment of BDO, an accountancy and business advisory firm, to conduct financial due diligence, a report was prepared by JLA management for the JLA Board, which recommended the acquisition of Washstation for the following reasons:

[46] On 14 May 2018, Hg Capital announced that it had agreed a sale of JLA (including Vanilla and Washstation) to Cinven, an international private equity firm. We understand that the completion of this transaction is conditional on approval by the Financial Conduct Authority.

(a) The acquisition was expected to return roughly [✂] times the value of the initial investment and create net value of £[✂] million (based on the sale of the business and an exit value of £[✂] million – see **Figure** 7 below).[47]

Figure 7**: Net value of Washstation acquisition**

	£000
[✂]	
[✂]	[✂]
[✂]	[✂]
[✂]	[✂]
[✂]	[✂]
[✂]	[✂]
[✂]	[✂]
[✂]	[✂]
[✂]	[✂]

Source: JLA

(b) The total Full Forward Value (FFV)[48] of all contracts awarded to Washstation as at 9 May 2017 was £[✂] million (see **Figure** 8). If all contracts were successfully renewed during the forecast period then the total FFV to October 2026 would be £[✂] million.

Figure 8**: Washstation Full Forward Value[49]**

[✂]

Source: JLA

Note 1: FY17 results are for the period May-17 to Oct-17 only

4.6 JLA told us that it expected to generate cost savings of circa £[✂] million per annum through combining the engineering teams (£[✂] million); sales and marketing savings (£[✂] million); and administration/ finance savings (£[✂] million).

4.7 **Figure** 9 below summarises the sales, marketing, finance and administrative synergies expected from the Merger by JLA, showing that the expected reduction in costs was mainly due to the duplication in staff and other administrative costs, such as office space and IT.

Figure 9**: Breakdown of synergies**

Cost item:	£ *Synergy saving*

[47] JLA told us that the assumed exit multiple of [✂] is the multiple that applied in October 2015 when [✂]. The multiple was not therefore directly related to the transaction. JLA further considered that the expected return was based on very prudent assumptions for working capital investment, capex and taxation

[48] JLA uses the term 'Full Forward Value' (FFV) which refers to the sum of the annualised revenue of each contract, multiplied by the remaining contract period. Annualised revenue reflects annual revenue projections for each contract plus any vend price increases where appropriate. Amounts are not discounted to present value.

[49] [✂].

£Rent, rates and warehouse costs	[✂]
External and virtual office costs	[✂]
Administrative staff salaries	[✂]
Recruitment, consultancy and temporary staff costs	[✂]
Insurance	[✂]
Telephone	[✂]
Sales staff costs	[✂]

Source: JLA response to market and financial questionnaire, question 48.

4.8 Under the [✂]: (i) [✂]; (ii) [✂]:[50]

(a) The [✂][51]; and

(b) [✂].[52]

4.9 Mr Copley is [✂].[53]

Relevant merger situation

4.10 Pursuant to section 35 of the Act and our terms of reference (see Appendix A) the first statutory question we must decide is whether a relevant merger situation has been created.

4.11 A relevant merger situation has been created if two or more enterprises have ceased to be distinct within the statutory period for reference[54] and the turnover test or the share of supply test is satisfied, or both are satisfied.[55]

Enterprises ceasing to be distinct

4.12 Both JLA (and its subsidiary Circuit) and Washstation are 'enterprises' for the purposes of the Act, as they carry on the activities of a business, namely the supply of managed laundry services for gain to higher education customers.[56]

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[50] [✂].
[51] [✂].
[52] [✂].
[53] [✂].
[54] Sections 23, 24 and 26 of the Act.
[55] Under section 23 of the Act, the turnover test is met if the value of the turnover in the UK of the enterprise being taken over exceeds £70 million; and the share of supply test is met if, as a result of two or more enterprises ceasing to be distinct, a share of supply of at least 25% is created or enhanced in relation to goods or services which are supplied or acquired in the UK, or in a substantial part of the UK.
[56] Section 129(1) and (3) of the Act provides that an 'enterprise' means 'the activities or part of the activities of a business'; and a 'business' includes a professional practice and any other undertaking which is carried on for gain or reward or which is an undertaking which supplies goods or services 'otherwise than free of charge'.

4.13 JLA and Washstation have ceased to be distinct enterprises, since they have been brought under common ownership or common control:[57] as a result of the Merger, JLA (indirectly through its subsidiary Vanilla) held all of the issued share capital of Washstation;[58] had the right, directly or indirectly, to appoint or remove a majority of the board of directors of the company; and held, directly or indirectly, all of the voting rights in Washstation.

4.14 The enterprises have ceased to be distinct within the statutory timeframe applicable in this case.[59] JLA, through its subsidiary Vanilla, acquired Washstation, so that the enterprises ceased to be distinct, on 18 May 2017. However, in the absence of any press release or other public statement about the Merger, it was not until 30 October 2017 that the CMA was given material facts about the Merger (by a third party). Accordingly, the four-month period – ie the statutory deadline within which the CMA has the ability to refer a merger[60] – started on 30 October 2017. It was subsequently extended on two occasions: first, on the basis that JLA had failed to comply fully with a notice under section 109 of the Act (for the production of certain documents);[61] and secondly, on the basis of the potential consideration of undertakings in lieu of a reference (UILs).[62] The CMA made the reference on 16 April 2018, and therefore within the four-month period, as extended.[63]

Turnover test / share of supply test

4.15 The relevant merger situation test also requires there to be a sufficient connection with the UK on a turnover or share of supply basis to give us jurisdiction to investigate.

4.16 In the present case, the turnover test is not met, since the value of the turnover in the UK of the enterprise acquired (ie Washstation) does not exceed £70 million.

[57] Section 26 of the Act.
[58] A 'controlling interest' generally means a shareholding conferring more than 50% of the voting rights in a company (Mergers; Guidance on the CMA's Jurisdiction and Procedure (CMA2), paragraph 4.30).
[59] Section 24 of the Act provides, in summary, that there is a relevant merger situation where enterprises have ceased to be distinct not more than four months before the day on which the reference is made, or where the merger took place without having been made public and without the CMA being informed of it, four months from the earlier of the time that material facts of the merger were made public or the time the CMA was told of those material facts. The four-month period may be extended in certain circumstances (for example, pursuant to section 25 of the Act).
[60] Section 24 of the Act. The four-month period starts from the earlier of the time the merger was made public or the time the CMA was told about it.
[61] Under section 25(2) of the Act.
[62] Sections 25(4) and 73A of the Act.
[63] On 10 April 2018, JLA informed the CMA that it did not intend to give UILs. Accordingly, pursuant to section 25(5) of the Act, the extension of the four-month period would have ended on 24 April 2018.

4.17 However, the share of supply test is met, since the Merger has resulted in an increase to a share of supply of at least 25% in relation to services which are supplied or acquired in the UK, or in a substantial part of the UK. As explained in more detail in paragraphs 7.18 to 7.21 below, the CMA estimates that the Parties have a combined share of supply in the UK of [90-100]% in managed laundry services to higher education customers under vend share agreements, with an increment of around [5-10]% as a result of the Merger.

Provisional conclusion on the relevant merger situation

4.18 In the light of the above assessment, we provisionally conclude that the Merger has resulted in the creation of a relevant merger situation.

5. The counterfactual

5.1 To assess the effects of the Merger on competition we need to consider what would have been the competitive situation without the Merger. This is called the 'counterfactual'.

5.2 The counterfactual is an analytical tool used to help answer the question of whether the Merger has resulted, or may be expected to result, in an SLC. It does this by providing the basis for a comparison of the competitive situation in the market with the Merger against the likely future competitive situation in the market absent the Merger. The CMA's approach to the counterfactual is set out in our Merger Assessment Guidelines (**MAGs**).[64]

5.3 The CMA may examine several possible counterfactual scenarios, including the continuation of the pre-Merger situation, and will select only the most likely scenario.[65] The CMA will typically incorporate into the counterfactual only those aspects of scenarios that appear likely on the basis of the facts available and the extent we are able to foresee future developments.[66] Given that the counterfactual incorporates only those elements of scenarios that are foreseeable, it will not in general be necessary to make finely balanced judgements about what is and what is not the counterfactual.[67]

5.4 In order to determine the counterfactual, we have considered, based on the evidence, what would have been the most likely scenario had Washstation not been acquired by JLA.

[64] MAGs, section 4.3.
[65] MAGs, paragraph 4.3.6.
[66] MAGs, paragraph 4.3.2.
[67] MAGs, paragraph 4.3.6.

Views of the Parties

JLA

5.5 JLA told us that the appropriate counterfactual should reflect 'Washstation being a materially weakened competitive force', because immediately prior to the Merger:

(a) Washstation was beginning to flatline rather than continuing to grow within the context of a market that itself was still growing;

(b) Washstation was winning fewer contracts and those contracts were of a smaller value than the contracts it had previously won, and it had been investing less capital in the business since 2015;[68]

(c) Washstation had a funding deficit of £1.3 million[69] and this gap was resulting in sub-optimal customer service;

(d) Washstation was receiving many customer complaints and many of these customers would not have renewed contracts with Washstation; and

(e) leading up to the Merger, Washstation was delaying the payment of commission due to cash flow and liquidity issues.[70]

Washstation

5.6 Mr Copley told us that he sold the Washstation business after he was approached by JLA in June/July 2016, and that at the time of the approach from JLA, he was not actively looking to sell the business.[71]

5.7 Mr Copley also told us that:

(a) Washstation was securing new contracts in the weeks leading up to the sale and that the business [✂];

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[68] Washstation's capital investment in 2016 was down 55% compared to the 2015 equivalent. In 2017 that figure had reduced by a further 43% on the 2016 figure.
[69] The "funding deficit" refers to Washstation's unpaid commitments (e.g. the outstanding commission debts owed to customers) in excess of its trading expenses.
[70] Washstation's figures show that at the time of the Merger, it had accrued almost £[✂] million in overdue commission to customers, which was subsequently reflected as one of the downward price adjustments in the final price paid for the business.
[71] Summary of hearing with Mr Copley, paragraph 22.

(b) Washstation had good customer relationships and customer retention rates were strong;[72] and

(c) the business was in a strong financial position and prior to the Merger, he had approached a number of parties for additional investment to continue the expansion of the business.[73]

5.8 Further background to the sale of Washstation is provided in Appendix D.

Views of third parties on the counterfactual

5.9 Armstrong told us that it believed the commission rates offered by Washstation were unsustainable.[74]

5.10 Armstrong told us that JLA and Washstation offered commission rates of 60% to 70% to some customers and that offering this level of commission to customers would not be profitable for Armstrong.[75]

5.11 Armstrong told us that, assuming Mr Copley had the requisite finance to continue to operate Washstation as he had done prior to the Merger, it would have expected Washstation to continue to compete against JLA and offer relatively high commission rates to win contracts.[76]

5.12 Goodman Sparks, a regional provider of managed laundry services, predominantly active in the North of England and the Midlands, told us that it suspected that the strategy of Washstation was to grow its presence before exiting the market by selling the business.[77] However, Goodman Sparks also told us that in the absence of the Merger, Washstation would have continued to impose a competitive constraint on JLA.[78]

Our assessment

5.13 In light of JLA's submissions and third parties' views, we consider below two possible counterfactual scenarios in relation to the constraint from Washstation absent the Merger. We considered whether Washstation would continue to operate in the market as it did prior to the Merger (ie pre-Merger

[72] Summary of hearing with Mr Copley, paragraphs 18 and 26.
[73] Summary of hearing with Mr Copley, paragraph 25.
[74] Summary of hearing with Armstrong, paragraph 29.
[75] Summary of hearing with Armstrong, paragraph 11.
[76] Summary of hearing with Armstrong, paragraph 29.
[77] Summary of hearing with Goodman Sparks, paragraph 10.
[78] Summary of hearing with Goodman Sparks, paragraph 19.

conditions), or whether it would continue to operate in the market, but impose a lesser competitive constraint on JLA.

5.14 We also assessed whether Hughes' acquisition of Armstrong was sufficiently likely, absent the Merger to be incorporated in the counterfactual.

Would Washstation have continued to operate as it did prior to the Merger or become a weaker competitor absent the Merger?

5.15 In assessing whether pre-Merger conditions or Washstation imposing a lesser competitive constraint on JLA is the most likely counterfactual, we considered:

(a) the financial performance and position of Washstation in the absence of the Merger; and

(b) whether underperformance against service standards was likely to lead to significant contract losses in the future.

Washstation's financial performance and position

5.16 Prior to JLA's acquisition of Washstation, JLA appointed BDO to perform financial due diligence on the Washstation business.

5.17 BDO's due diligence indicates that Washstation was a marginally profitable and growing business (see **Figure** 10 below). Washstation recorded revenue of £[✂] million and net profit of £[✂] in 2016, and Washstation forecast revenue of £[✂] million in 2017 and £[✂] million in 2018. Washstation also forecast net profits of £[✂] in 2017 and £[✂] in 2018.[79]

Figure 10**: Washstation trading summary**

					£'000
	2015A	*2016A*	*2017F*	*2018F*	*2019F*
Revenue	1,785	2,587	3,390	3,896	4,168
EBITDA	292	334	[✂]	[✂]	[✂]
Net Profit	82	15	[✂]	[✂]	[✂]

Source: BDO financial due diligence report, slide 19.

5.18 BDO's report also advised JLA that:

(a) Washstation's revenue forecasts represented known contracts which Washstation had attained. As such, subject to the achievement of planned

[79] Due diligence was prepared from information supplied by and from discussions with the directors, management and employees of Washstation. Information provided by Washstation was unaudited.

price increases and the retention of existing sites, forecasts appeared to be achievable.

(b) The average remaining duration of Washstation customer contracts, weighted by revenue, was [✂] years at the time of the Merger.

5.19 As BDO only considered Washstation's financial position from 2015 onwards, we conducted our own analysis of Washstation's contract data (provided to us by JLA) to understand the financial performance of the business from 2010 (see Figure 3 above which shows a significant growth in Washstation's revenues since 2010).

5.20 Based on the start dates of active Washstation contracts and using the 2017 revenue generated by each of those contracts,[80] we estimate that Washstation has grown each year since 2010 and achieved its most significant growth during 2015. Any comparison of Washstation's performance against its 2015 growth rate would therefore be misleading and would not reflect the performance of the business over time. Our analysis shows that Washstation's 2016 performance was broadly in line with its wider growth trend. We do not consider 2017 to be an accurate measure of growth absent the Merger as it represents a part year only and may have been impacted by negotiations for the sale of the business.

5.21 Further, we note that JLA ultimately paid £[✂] million for Washstation and that JLA's expectation was that significant value could be generated from the acquisition.

5.22 With regard to Washstation's financial position, due diligence indicates that Washstation has [✂], as well as delaying the payment of commissions.

5.23 Mr Copley told us that:

(a) at the time of the sale of Washstation, [✂]; and

(b) this was [✂].

[80] For example, where contracts started in 2015, we allocated the 2017 revenue figures for those contracts to the year 2015 and subsequent years. In calculating revenues for each year from 2010 onwards, we then summed the revenues each year to obtain yearly figures. As we would not expect material variation in individual contract revenue from year to year (ie student numbers, student usage, vend prices etc remain broadly similar), we consider this to be a reasonable indicator of Washstation's growth over time although actual figures would likely be different.

5.24 In terms of asset financing, we note that, according to the due diligence report, Washstation entered into a sale and leaseback arrangement[81] in September 2016 which resulted in an increase in cash of £[✂]. Financial due diligence indicated that at the end of 2015, around [✂]% of Washstation's fixed asset base was held under finance leases or hire purchase contracts and that Washstation's management was considering refinancing certain unleveraged machine assets to release cash.[82]

5.25 Mr Copley also told us that:

(a) he had access to other forms of financing including [✂];[83] and

(b) he had [✂].[84]

5.26 Further, BDO's due diligence indicated that Washstation's cash flow position was forecast to strengthen over time with operating cash flow forecast to increase from £[✂] in 2016 to circa £[✂] million in 2018 and £[✂] million in 2019.

Our provisional view on Washstation's financial performance and position

5.27 We provisionally found that at the time of the Merger, Washstation was forecast to grow (in terms of revenue, profitability and cash flow).

5.28 Washstation appeared to be exhibiting some of the challenges common to small, rapidly growing companies in ensuring that adequate funding was in place to sustain its growth. However, Mr Copley told us that Washstation had several possible options available to it should additional financing be required and we have seen some evidence to indicate that finance was available to continue to develop the business.

5.29 Overall, we provisionally consider that Washstation was on a clear growth path before the Merger, largely due to its success in securing long term contracts, and it was forecast to improve its financial performance and position over time.

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[81] A sale and leaseback is a financial transaction whereby the seller of an asset immediately leases back that same asset. By doing so, the seller obtains cash from the sale but is able to continue using the asset in return for a periodic payment.
[82] A refinancing arrangement allows a company to raise cash against its assets. This can take the form of a sale and leaseback or a secured loan. 'Unleveraged machine assets' means those items of machinery not yet subject to such an agreement.
[83] Summary of hearing with Mr Copley, paragraph 25.
[84] Summary of hearing with Mr Copley, paragraph 25.

Washstation performance against its contractual obligations and service standards

5.30 JLA told us that the late payment of commission due to customers by Washstation would have resulted in customer dissatisfaction and the potential loss of existing contracts, as well as the failure to secure new contracts.

5.31 JLA also told us that, due to the importance of contracted revenue for the sale of the business, Washstation may have been entering into economically non-viable contracts (by offering commission rates to customers that were too high), in order to secure new contracts and to make the company attractive to a potential purchaser.

5.32 However, JLA also told us that, in general, Washstation's average commission levels were [✂] percentage points higher than the average level offered by JLA.[85] While JLA identified a limited number of examples of Washstation offering much higher commissions (eg [✂] contract), it noted that this was not normally the case.

5.33 The MT has informed us that, [✂], based on unaudited data provided by JLA.[86] This indicates that most of Washstation's contracts appear to be profitable.

5.34 The HSM has told us that there has been some evidence of customer dissatisfaction caused by the late payment of commission and service under-performance[87], and that this has led to [✂] losses, accounting for around £[✂] of pre-commission revenues annually.[88] This compares to projected revenues of circa £[✂] million in 2018 and £[✂] million in 2019. We note that the contract losses occurring during the mandate of the HSM may have been influenced by issues which would not have existed in the absence of the Merger (eg uncertainty and confusion regarding the future of Washstation due to the CMA investigation).

[85] JLA told us that Washstation commissions were around [✂] percentage points higher than those of JLA on average.
[86] [✂].
[87] For example, where contractual commitments regarding response times had not been adhered to or where Washstation had over-promised on the technical capabilities of its machine availability monitoring and payment systems.
[88] [✂].

Our provisional view on Washstation's performance against its contractual obligations and service standards

5.35 We have provisionally found that prior to the Merger, Washstation was, on the whole, performing well against its contractual obligations and service standards. Any uneconomic contracts are limited in number and do not appear to have been such as to question the viability of the Washstation business. There were some incidents of customer dissatisfaction, but these have not led to the widespread loss of customers, which would have materially weakened or undermined Washstation's ability to continue to grow and compete as it did prior to the Merger.

Provisional view on whether Washstation would have continued to operate as it did prior to the Merger or become a weaker competitor absent the Merger

5.36 Our provisional view is that Washstation would have continued to compete in the supply of managed laundry services to higher education customers as it was doing prior to the Merger. This provisional finding is based on the following reasons:

(a) due diligence on Washstation indicates that the business was forecast to grow in terms of revenues, profitability and cash flow;

(b) our analysis indicates that Washstation has been on a growth path since 2010 and any apparent slowing in 2016 is not necessarily indicative of the wider trend;

(c) while some additional finance may have been required to continue to support the business, we have seen some evidence that this was available to Washstation;

(d) Washstation's commission rates were not significantly different to those of JLA and while there may have been some uneconomic contracts these are limited in number and do not appear to have been such as to cast material doubts on the ability of the Washstation business to continue to compete as it did pre-Merger; and

(e) while there have been some instances of customer dissatisfaction, this has resulted in the loss of a limited number of Washstation contracts and has not significantly weakened Washstation's ability to compete as it did pre-Merger.

Hughes's acquisition of Armstrong

5.37 Armstrong was acquired by Hughes in January 2018. We assessed whether, in the absence of the Merger (hypothetically), this acquisition would have occurred or occurred on different terms, because this could affect the conditions of competition.

5.38 JLA submitted that it was unclear whether Hughes' acquisition of Armstrong would have taken place absent the Merger. JLA noted that, after the Merger, Armstrong approached JLA about acquiring the Armstrong business and that, absent the Merger, JLA might have been more aggressive in trying to acquire Armstrong.

5.39 Hughes told us that it was aware of the Merger when it decided to acquire Armstrong, but that it would probably have acquired Armstrong regardless of the Merger. However, a note of a meeting of Hughes's senior management held on 17 September 2017 to discuss the possible acquisition of Armstrong described the competitive set as including JLA and Washstation as two separate competitors, indicating its consideration of the acquisition of Armstrong did not contemplate the Merger taking place.

5.40 We think that, even if Hughes' acquisition of Armstrong could have occurred absent the Merger, the Merger may have prompted or positively affected Hughes' plans to expand in the higher education sector. This is supported by Armstrong's statement to us that it saw the Merger as an opportunity to grow in the higher education sector.[89] Therefore, our provisional view is that Hughes' expansion plans in relation to Armstrong were likely impacted by the Merger, although we are not in a position to determine exactly to what extent.

5.41 Our provisional view is that Hughes/Armstrong subsequent expansion plans appeared, to some extent, to be linked to the Merger. Accordingly, the most likely counterfactual in relation to Armstrong is the pre-Merger conditions of competition. We have assessed the impact of Hughes' acquisition of Armstrong in the Countervailing Factors section. In the Competition Effects section, we have assessed Armstrong's competitive strength pre-Merger.

[89] Summary of hearing with Armstrong, page 2.

Provisional view on the counterfactual

5.42 Our provisional view is that the most likely counterfactual is the pre-Merger conditions of competition, with regard to the competitive constraint imposed on JLA by both Washstation and Armstrong

6. Market definition

6.1 The purpose of market definition is to provide a framework for the CMA's analysis of the competitive effects of a Merger. The relevant market (or markets) is the market in which a merger may give rise to an SLC and contains the products and/or services that are the most significant competitive alternatives available to the customers of the merged companies. Market definition is a useful analytical tool but is not an end in itself and identifying the relevant market involves an element of judgement. The boundaries of the market do not determine the outcome of the CMA's analysis of the competitive effects of a merger in a mechanistic way. The CMA may, for example, also take into account constraints outside the relevant market (or markets).[90]

Product market definition

6.2 As mentioned above, the primary overlap between the Parties is in the provision of managed laundry services to higher education customers under vend share agreements.[91]

6.3 No higher education customer indicated that the provision of an onsite laundry was discretionary, and as such the choice faced by customers was how to source washing machines, driers and any associated services. The ability of students to take their laundry home or to a high-street launderette, as submitted by JLA, does not change this.

6.4 JLA submitted that the appropriate frame of reference is for the supply of commercial laundry products and services in the UK, and that it is inappropriate to define the market by reference to any end-user group. JLA

[90] MAGs, paragraphs 5.2.1 and 5.2.2.
[91] The Parties also overlap to a limited extent on the supply of managed laundry services to hospitality and leisure customers. Given that the revenue of Washstation generated from the supply of managed laundry services to sectors other than higher education was less than £[✄], and our investigation indicates that there is a significant higher number of competitors supplying managed laundry services to other sectors, we have not investigated the effects of the Merger in other sectors further.

also submitted that it is inappropriate to make reference to the agreement type which is used to purchase laundry equipment or services.

6.5 In establishing whether the relevant product market should be defined in this way or more broadly, there are two main considerations:

(a) the extent to which other means of procuring laundry services are demand-side substitutes for vend share agreements, and so represent credible outside options to customers; and

(b) the extent to which providers of managed laundry services to other sectors, or through other types of agreements, are able to supply higher education customers, and so represent credible outside options to those providers with higher education experience.[92]

Demand-side substitution

JLA submissions

6.6 JLA submitted that customers are unconcerned with the manner in which they contract to obtain laundry services.

6.7 JLA stated that some customers simultaneously procure machines under vend share and fixed rental agreements, which indicates that these customers see these purchasing models as substitutes. JLA identified[93] [a limited number] of all its vend share customers, who switched from a vend share agreement to a fixed rental agreement. Of these one is a higher education customer, who switched contract type in 2016 and pays monthly rent of £[✄].[94]

6.8 JLA submitted that the CMA's market research suggests that 1 in 5 customers do not consider vend share agreements to be important and that third parties (UPP, Regent's Park College and the University of Leeds) interviewed in hearings considered fixed rental solutions and/or self-supply. JLA also noted

[92] Despite the individualised nature of the service provided to each customer and the several types of customer, our view is that it would not be appropriate to segment the market further by different higher education customers. This is for two reasons. Firstly, the assets and services needed to supply higher education customers are relatively uniform in terms of the equipment which must be provided and the maintenance and service requirements. Secondly, the nature of competition – tenders and negotiations – are uniform across the higher education sector and the same providers (JLA, Washstation, and Armstrong) are active across all types of higher education customer.

[93] This data only covers customers who switched from vend share to fixed rental contracts while staying with JLA (a customer could have had a vend share agreement with another provider, and then switched to a fixed rental agreement with JLA, or vice versa).

[94] The higher education customer is [✄]. The other contracts relate to [a limited number of] school, leisure and housing association customers.

that several of the reasons stated by customers to the CMA in relation to why they prefer vend share agreements also apply to fixed rental agreements – in particular the lack of initial capital outlay and the ability to outsource management and maintenance.

Third parties

6.9 Managed laundry providers generate their revenue by retaining a proportion of the vend price (which is set contractually) paid on each washing, or drying, cycle. Vend share agreements involve no payments by the customer to the managed laundry provider.

6.10 Customers told us that vend share agreements are their preferred option because such agreements allow them to avoid capital outlay and minimise ongoing costs.[95] We spoke to one higher education customer who asked for submissions in its tender for fixed rental options, but said that it was unlikely to choose the fully fixed model. It preferred vend share agreements which avoided the need to pass the costs of the fixed model on to students via rent increases.[96] A higher education customer also told us that it preferred vend share agreements as the financial risk is assumed by the provider.[97]

6.11 Managed laundry providers (Armstrong, Goodman Sparks and Mr Copley) confirmed that higher education customers have a strong preference for vend share agreements over fixed rental agreements. They said that this is because higher education customers do not want to get involved in the management issues associated with the provision of laundry services, which only account for a small proportion of the overall costs of providing accommodation. However, one managed laundry provider to non-higher education customers stated that it had received expressions of interest from two universities in renting laundry machines on a fixed rental basis.[98]

6.12 Evidence submitted by JLA and third parties indicates that the large majority of customers in the higher education sector use the vend share model. Data provided by JLA shows that [90-100]% of JLA's and 100% of Washstation's rental agreements in the higher education sector are vend share agreements

[95] The University of Nottingham and [✂].
[96] Summary of hearing with the University of Sheffield, paragraph 11.
[97] [✂].
[98] Summary of hearing with Maxwell Adam, paragraphs 10-12.

(with the remainder being fixed rental agreements), whereas only [40-50]% of JLA' revenues in the leisure sector are from vend share agreements.

6.13 One possible alternative to both vend share and fixed rental agreements would be for higher education accommodation providers to purchase equipment and operate their own laundry services (self-supply). We understand that this was the primary means of provision for laundry services until the initial entry of Circuit in the 1990s.[99] However, no customers identified this as an alternative to renting machines either under the fixed or vend share model.[100]

CMA's customer research

6.14 The CMA's customer research contained a number of questions on the types of contract currently in place and the willingness of customers to use different types of contracts. We have restricted the sample in the following paragraphs, as 9 respondents failed to correctly identify the type of contract they are currently on.[101]

6.15 When respondents were asked to name the most important factors when choosing their laundry provider, none identified vend share agreements,[102/103] and respondents considered vend share agreements as the seventh most important factor in choosing between managed laundry service providers (behind factors such as quality of maintenance service). Nevertheless, half of the 50 respondents said they were unlikely to, or would not, consider a provider that does not offer a vend share agreement,[104] and only 10 out of the

[99] Though it should be noted that Goodman Sparks have provided managed laundry services on a vend share basis to a small number of universities since the 1970s. See Goodman Sparks hearing summary.

[100] We note, however, that Leeds University told us that some of their new accommodation had domestic machines in each flat, rather than laundry rooms. These are rented on a fixed rental basis by the university and are free for students to use (with costs paid from the students' rent). No other customer indicated that they were using or considering using a similar model, either during hearings or as part of CMA's research and the University of Nottingham and University of Sheffield stated that using domestic machines was not currently an option for them.

[101] When we compared customer responses to the question about the type of agreement they had with the information provided by the Parties, we found that: seven out of nine customers who thought they were on a 'fixed rental agreement' and the one customer who said they were on a 'sales agreement' were all in fact on a 'variable rental agreement' according to the Parties' dataset. In addition, there was one customer who did not know what kind of agreement they had.

[102] In the customer research vend share agreements were referred to as variable rental agreements.

[103] This may be because all the providers considered did offer or were assumed to offer a vend share agreement.

[104] 9 respondents stated that offering 'variable rental agreements' (which are vend share agreements) is an essential selection criterion for a managed laundry provider, 20 said it is "very important", and 11 said it is "fairly important" Q21b, Customer research.

50 respondents said that they were likely to consider a provider which does not offer vend share agreements.[105]

6.16 When asked why vend share agreements were important to them, the responses given by each respondent varied, but, overall, the reasons why they valued the vend share model were mainly: (i) avoidance of capital expenditure on machines and related facilities; (ii) the reduction in financial risk if machines are not used frequently; (iii) the greater degree of flexibility offered to vary the agreement according to need; (iv) the reduction in management and maintenance compared to self-owned machines; and (v) the income generation opportunity.[106]

6.17 Taken together, we consider that these results imply that vend share agreements are important to a large proportion of respondents, who may not consider a provider who does not offer vend share agreements as an attractive option.

Provisional view on demand side substitutability

6.18 Our investigation revealed that the majority of higher education customers do not consider that alternative types of procurement, such as fixed rental agreements or outright purchase, to be alternatives to vend share agreements. In particular, almost all higher education customers used (and continue to use) vend share agreements for the supply of managed laundry services and very few customers have previously switched from vend share to fixed rental agreements. Furthermore, some higher education customers expressed their preference for vend share agreements for various reasons.

Supply-side substitution

6.19 While the boundaries of the relevant product market are generally determined by reference to demand-side substitution alone,[107] in some circumstances it may be appropriate for the CMA to aggregate several narrow relevant markets into one broader one. There are two conditions which must be satisfied:

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[105] No respondent stated that it was "very likely" to consider a supplier which did not offer a variable rental agreement, 10 respondents stated they were "fairly likely", 9 that they were "neither likely not unlikely", 9 "fairly unlikely", 8 "very unlikely", 10 "would not consider" such a supplier, and 4 did not know. Q48, Customer research
[106] See response to Q21d, Customer research.
[107] MAGs, paragraph 5.2.17

(a) production assets must be usable by firms to supply multiple products, and they must be willing and able to do so quickly depending on the level of demand for these products; and

(b) the same firms are seen to be competing in the supply of these products, and the conditions of competition between the firms are the same for each product.

6.20 In order to assess the scope for supply-side substitution we have considered:

(a) whether higher education customers have any unique requirements, and

(b) whether the same firms are active in the higher education sector as in other sectors

Unique requirements of higher education customers

6.21 If higher education customers have different requirements to customers in other sectors, then firms who are currently supplying laundry services to other types of customers may not be able to use the same production assets to supply higher education customers.

6.22 JLA submitted that the business model for managed laundry services is simple, requiring only laundry equipment and engineers to service and maintain the installed machines. From a technical point of view, there are no differences between a higher education customer and, for instance, a leisure customer, care home customer, hotel customer or a key-worker site.[108] JLA also said that apps, online monitoring systems and laundry room refurbishments are "nice to haves" and are not as important to customers as service level and vend prices.

6.23 Nonetheless, as explained in more detail below, JLA's internal documents, including JLA's internal emails, emails between JLA and customers and high-level strategy documents, generally seem to indicate that JLA views higher education customers differently from customers in other sectors in the course of its day-to-day business.

[108] JLA told us that it is agnostic as to the type of customer it serves: it deploys laundry equipment to a range of different customer types; its service centre takes calls from all customer types; and its engineers do not specialise in any particular customer type.

Payment systems

6.24 Laundry facilities typically fall into two categories, either free to use or paid for by the user. Free to use machines are common in sectors where the machine is used by a company (or institution) in carrying out its activities such as a care home. Vending machines are used when the machine is provided for the use of a third party, such as in the higher education sector, leisure sector, laundrettes, and in some private shared accommodation. Third parties said that, while the higher education sector has moved towards cashless-operated machines (eg with campus cards), the majority of leisure customers still tend to prefer cash-machines as other payment options are expensive to purchase and install.

Online services

6.25 Linked to payment systems, some higher education customers require online services. The CMA's customer research showed that 36 out of 59 research respondents currently have the ability for students to check the availability of the machines online. A few respondents also mentioned the lack of modern technology being a weakness of providers such as Armstrong or Goodman Sparks compared to JLA or Washstation. Taken together, these findings imply that online services may be required by some respondents.

Installation and refurbishments

6.26 Due to the term structure at higher education institutions, accommodation will only be unoccupied during holiday periods (primarily the summer holidays). Because of this, any installation or refurbishment work must be undertaken during the holidays. Providers[109] told us that due to the timescales of customers' tender processes, it is necessary for installation work across multiple contracts to be completed during limited periods of time, a circumstance that does not arise or is less common in other sectors.

6.27 As well as installing machines, providers are often expected to refurbish the laundry room. A number of customers[110] stated that it is essential that their managed laundry provider refurbishes the laundry room in which it installs equipment. Only 9 out of 59 respondents in the CMA's customer research

[109] Summaries of hearings with Goodman Sparks and Armstrong.
[110] Summary of hearing with the University of Nottingham, paragraph 8, and nine respondents to the CMA's customer research.

said that laundry room refurbishment was not an important factor when choosing a laundry provider.[111] Providers agreed that refurbishment is expected by higher education customers, as evidenced by the tender specifications outlined above.[112] Refurbishment work is not required by healthcare and school customers and is only rarely required by hospitality customers.[113]

Equipment

6.28 JLA submitted that it deploys the same models of machines across multiple sectors.

6.29 Higher education customers indicated that machines need to have a capacity of approximately 9.5kg. Laundry providers[114] explained that machines which are suitable for higher education customers are "semi-commercial" in nature, designed to be used several times each day. This compares to "fully-commercial" machines, designed to withstand much more frequent use, which are used in sectors such as care homes and hospitals. Machines manufactured by firms such as Miele and Electrolux are fully commercial in nature, and are considerably more expensive[115] than semi-commercial machines, which are primarily manufactured by Alliance and Whirlpool.[116]

6.30 Third party evidence indicates that care homes and healthcare customers (differently from higher education and leisure customers) tend to use bigger machines (with a capacity of up to 20kg), which are suitable for more intense use (ie higher number of washes a day).

Provisional view on higher education customer requirements

6.31 This evidence indicates that, although the type of machines used in higher education sectors may be used in other sectors (eg leisure sector), higher

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[111] Out of the total of 59 respondents, nine found it essential, 18 found it very important, 20 found it fairly important, and nine said that it was not important.
[112] See paragraph 3.24 above.
[113] For example, Mr Copley stated that the higher education sector differs from other sectors because it has specific requirements related to number of end-users, refurbishment and the overall student experience. The refurbishment of student laundry rooms covers the whole room and can include a TV, seating, etc. Washstation would do minor refurbishments each year to keep the room up to standard, while camp site laundry rooms usually look tired and require significantly less investment. Summary of hearing with Mr Copley, paragraph 10.
[114] Summaries of hearings with Goodman Sparks, Hughes, Maxwell Adam and Whirlpool.
[115] Goodman Sparks stated that fully-commercial machines are approximately twice as expensive as semi-commercial machines.
[116] Summary of hearing with Mr Copley, paragraph 19; summary of hearing with Forbes Rental, paragraph 9; summary of hearing with Goodman Sparks, paragraph 11.

education customers have some specific requirements that are not shared by customers in other managed laundry sectors. This may limit the ability of commercial laundry providers in other sectors to be able start supplying higher education customers sufficiently quickly for substitution to be realistic.

Different competitor set

6.32 The set of firms active in serving higher education customers is different from the set of firms active in supplying commercial laundry services to customers in other sectors. Figure 11 shows the proportion of customers of some commercial laundry providers[117] by sector and by contract types. The only providers with substantial managed laundry operations in the higher education sector that offer vend share agreements are JLA, Washstation, and to a lesser extent Armstrong and Goodman Sparks. In contrast, other providers, who, in some instances may also offer vend share agreements, do not supply managed laundry services to higher education customers or have only very limited activity in this sector.

Figure 11: Proportion (where known) of each providers' customers, by sector (2016 - 2017)

Providers who are active in higher education sector	***Higher education***	***Hospitality and leisure***	***Other sectors***
JLA†	[20-30]%	[10-20]%	Care homes ([✂]%), housing ([✂] [%), public sector ([✂]%), other schools ([✂]%), others ([✂]%)
Washstation†	[90-100]%	[5-10]%	-
Armstrong	[5-10]%	[10-20]%	Trade sales ([✂]%), public sector ([✂] [%), care homes ([✂] [%), hospitals ([✂]%), other schools ([✂]%)
Goodman Sparks	[10-20]%	[5-10]%	Care homes ([✂]%), hospitals ([✂]%), public sector ([✂]%) vets ([✂]%)
Other providers with limited or no presence in higher education who offer vend share agreements	***Higher education***	***Hospitality and leisure***	***Other sectors***
Brewer & Bunney	[0-5]%	[20-30]%	Care homes ([✂]%), public sector ([✂]%), other schools ([✂]%)
Maxwell Adam	[0-5]%	Hotels and restaurants	Care homes, hospital, housing association, other schools and vet sectors
Wolf Laundry	[0-5]%	[0-5]%	Hospitals ([✂]%), care homes ([✂]%), high street laundrettes ([✂]%), other schools ([✂]%), public sector [✂]%), other ([✂]%)
Providers with limited or no presence in higher education who do not offer vend share	***Higher education***	***Hospitality and leisure***	***Other sectors***

117 Figure 11 illustrates data from commercial laundry providers which were collected during the phase 1 investigation. The list presented is not exhaustive and whilst we do not have data on all laundry companies, we haven't found any evidence to suggest that there are any other players with significant activity in the higher education sector.

Girbau	[5-10]%	[20-30]% (hotels)	Care homes ([✂]%), public sector ([✂]%), hospitals ([✂]%), other schools ([✂]%), commercial businesses ([✂]%)
Fowler (Photo-Me)	[10-20]%	[30-40]% (hotels)	Care homes ([✂]%), other schools ([✂]%), vets ([✂]%), public sector ([✂]%) high street laundrettes ([✂]%)
Electrolux (including distributors)	[0-5]%	[10-20]% (hotels)	Hospitals ([✂]%),Care homes ([✂]%), prisons ([✂]%), high street laundrettes ([✂]%), other ([✂]%)
Miele	[0-5]%	[10-20]% (hotels)	Care homes ([✂]%) hospitals ([✂]%)

Source: For JLA and Washstation response to S.109 Annex 11 dated 22 December 2017. For other providers' responses to CMA questionnaire (phase 1)
†For JLA and Washstation, we have reported the proportion of revenues generated in each sector

6.33 During their hearings with the CMA, providers other than JLA stated that they considered higher education customers to be separate from the business areas that they were active in, and generally spoke of the provision of laundry equipment and managed laundry services as being segmented by customer type.

6.34 Additionally, we note that the non-compete covenant agreed between Mr Copley and JLA [✂] (see paragraph 4.8 above).

Evidence from internal documents

6.35 From our internal document review, we found documents indicative of JLA treating managed laundry services in the higher education sector as being distinct from the provision of laundry services in other sectors. Such documents included internal JLA emails and high-level strategy documents as for example:

(a) One strategy document prepared by JLA (2016) where JLA refers to the vend share sector[118] as distinct from other laundry sectors and contractual agreements such as fixed rental agreements.[119]

(b) One email where JLA discussed marketing material which was specific to target higher education customers;[120]

118 During the site visit JLA indicated that around [✂]% of vend share revenues are from the higher education sector.
119 See strategy document for JLA board discussing laundry services by sector: "This market consists of universities and university accommodation… Accommodation tends to be in purpose built halls of residence… University sites on Pivotal: 2,600… How does this market buy? Direct procurement with University Accommodation provider. Some localised budgets held within University departments".
120 See email from a procurement directory for universities asking Circuit whether they would like to advertise Circuit business to universities through them: "*We already work with the likes of Washstation and Armstrong*

(c) One internal strategy document (2016) in which JLA discusses vend share agreements as being distinct from other agreement types in the commercial laundry sector.[121/122]

6.36 Therefore, some of JLA's internal documents and [✄] indicate that it may view higher education customers as a separate customer segment.

Provisional view on supply side substitution

6.37 The evidence set out above indicates that:

(a) higher education customers have some different requirements compared to customers in other sectors which may limit the ability of providers active in other sectors to quickly supply them; and

(b) overall, the set of firms active in serving the higher education sector is broadly different from the set of firms serving customers in other segments.

Provisional view on product market definition

6.38 Given the above evidence, we have defined the product market as managed laundry services to higher education customers under vend share agreements. While we have used this definition to inform our analysis we also consider any constraint from providers outside of this market when we examine both the competitive effects of the Merger and entry and expansion.

Geographic market definition

6.39 JLA submitted that the relevant geographic market is local in the majority of cases, with only some customers requiring a firm with national coverage. JLA submits that this means that regional providers are able to serve customers which are based at a single location, which includes most universities.[123] However, JLA also submitted that it is easy for a small provider to achieve

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Commercial Laundry Systems and are keen to have Circuit on board as we receive your details regularly from universities on their preferred supplier lists".

121 On Premise Total Care (fixed rental agreements)

122 See internal document JLA profits and activities across its all portfolio: "[*t*]*he Vend Share Total Care has performed broadly in line with the FY16 projections in the original IM and Budget, with revenue showing growth of 8.9% FY15 (of which c6.9% is organic) and projecting organic growth of 9.5% in FY17 FY16.[…] the market landscape hasn't significantly changed in 2016 and we continue to have one major competitor Washstation."*

123 Parties' response to Phase 1 Decision, 4 May 2018, section 4.

national coverage, pointing to Washstation's ability to offer nationwide coverage with only six engineers, and claimed that any regional provider could, in practice, serve a customer in a region where it is not currently active.[124]

6.40 From a demand-side perspective we consider that there are multiple local markets in the UK, corresponding to where universities (and thus contracts) are located and there may be a single national market for private accommodation providers. We note that many providers we have spoken to have indicated that they are regional in scope, with the primary constraint being their engineering network (comprising both engineers they directly employ and freelance engineers they are able to contract on a temporary basis where necessary).[125]

6.41 Nevertheless, as set out in our MAGs, we may aggregate products which are not demand-side substitutes, such as in markets characterised by bidding and tendering processes, where firms bid on the basis of the service they can offer to supply customers with bespoke products. The competitive constraint on firms in this case comes from a customer's willingness to award the contract to a rival rather than to switch to a different bespoke product. Aggregating a range of contracts where the same set of firms would have been credible bidders can provide more useful information about the competitive constraints on each firm than is available from focusing on just one bespoke product.[126]

6.42 As explained in the Competitive Effects section, the market for laundry services to higher education customers under vend share agreements, is characterised by individual tenders and bilateral negotiations. These tenders and negotiations range from covering the entirety of a private accommodation provider's estate, with multiple locations, to covering a single laundry room within a university campus. We consider that the competitive constraint on firms bidding for these contracts will stem from the willingness of customers to award the contract to a rival firm (see paragraph 7.13 to 7.15 in the Competition Effects section).

[124] Parties' response to Issues Letter, 14 March 2018, section E. JLA points out that Washstation's ability to serve customers nationwide is evidenced by the fact that it has customers in the North of England and in Scotland despite its headquarters being in the South of England. Washstation's tender for the [✂] in Scotland shows that it was willing to commit to same-day repairs with penalties in case of delays[124] This indicates that Washstation's engineers were capable of providing same-day engineering service to customers nationwide, supplemented where necessary by contracted engineers. See [✂] tender proposal.
[125] See, for instance, Laundry 365 and Maxwell Adam These providers see their current geographical scope as being binding, and are unwilling to take on contracts outside of the areas they are currently active in.
[126] MAGs, paragraph 5.2.18

6.43 In this context we have not found it appropriate to restrict the competitor set in any way based on the location of either customers or laundry service companies. Rather we have aggregated all contracts together and analysed the aggregate constraint that each managed laundry service provider within the higher education sector may impose on each other. Therefore, we have adopted a national geographic market and not found it necessary to define a market narrower than the UK.

Provisional view on market definition

6.44 For the reasons set out above, our provisional conclusion is that the relevant market for our competitive assessment is the supply of managed laundry services to higher education customers under vend share agreements in the UK.

7. Assessment of the competitive effects of the Merger

7.1 In this section we discuss the competitive effects of the Merger, including how competition works, and evidence on the strength of the constraints imposed on each other by the Parties and by other providers.

7.2 We first describe the nature of pre-Merger competition (paragraphs 7.4 to 7.16) before turning to the assessment of the effects of the Merger. This involves an assessment of market shares (paragraphs 7.18 to 7.34), competitive interactions between the Parties and other providers (paragraphs 7.35 to 7.44) and customers' views on the competitiveness of providers and effects of the merger (paragraphs 7.45 to 7.60).

7.3 Finally, we assess whether any changes in competitive dynamics have occurred following the completion of the Merger in May 2017 (paragraphs 7.84 to 7.99).

Nature of competition

Introduction

7.4 In this section we set out how providers of managed laundry services under vend share agreements to the higher education sector compete with each other, drawing, in particular, on evidence from internal documents provided by the Parties, third party hearings, and our own customer research.

7.5 We begin by outlining how competition in the market for managed laundry services to the higher education sector works. We then explain the framework we used for our analysis of the competitive effects of the Merger.

How contracting occurs

7.6 As explained above in paragraphs 3.23-3.28, contracting occurs, higher education customers can select their providers of managed laundry services by: (i) approaching them directly and asking for a quote; or (ii) issuing a formal tender where providers are selected based on specific requirements.

7.7 JLA submitted that the large majority of customers follow a formal or informal tender process. JLA stated that higher education customers running a formal tender process (which tend to be used for larger contracts) will typically post details of potential contract awards on the In-Tend portal.[127] JLA submitted that another way in which prospective providers can have access to potential customers is via the ESPO framework, which assists public bodies across a range of sectors with their procurement needs.[128] However, ESPO stated that, in practice, no universities have used ESPO either for the purchase or rental of laundry equipment, or the supply of managed laundry services.[129]

7.8 Data submitted by JLA shows that in 2016 around [80-90]% of JLA's revenue and around [60-70]% of Washstation's revenue was from contracts negotiated directly while only around [30-40]% of the revenue from both companies was from contracts awarded through tenders. In 2017, [80-90]% and [90-100]% of JLA's and Washstation's revenue, respectively, was from contracts negotiated directly.

7.9 Direct negotiations include both new business and the roll-over of existing agreements. The degree to which there is competition for this business will depend on the extent to which higher education customers proactively seek out bidders and invite them to make an offer, or potential providers proactively contact higher education customers. Amongst the respondents to the CMA's customer research, a significant number of their contracts were not competed over. Twenty out of 59 customers extended, rolled over or re-contracted with their existing provider without considering alternatives.[130]

Our theory of harm

7.10 Theories of harm describe the possible ways in which an SLC could arise as a result of the merger and provide the framework for our analysis of the competitive effects of the merger. In this case, we focused on one theory of

[127] In-tend is a website described as "e-tendering for higher education customers". Any provider can register on the In-Tend portal to receive alerts for such potential contract awards.
[128] See JLA's response to Phase 1 decision of 9 May 2018.
[129] Summary of hearing with ESPO, paragraph 7.
[130] See Q16, Table 13 of DJS customer research.

harm: unilateral effects arising from the loss of a provider of managed laundry services to higher education in the UK.

7.11 Under this theory of harm, the removal of a competitor to JLA through the Merger would provide JLA with the ability and the incentive to deteriorate or degrade elements of its competitive offering, as compared with each of the Parties' pre-Merger offerings. In general, for this theory of harm to hold, two conditions need to be met:

(a) the Parties are close competitors (ie they are considered to be good alternatives by customers); and

(b) other providers cannot replicate the competitive constraint that the Parties exert on one another.

7.12 The Merger could give rise to unilateral effects if Washstation was a viable, and close outside option to JLA. If removing this outside option reduces customers' bargaining strength in negotiations and tenders, the Merger could result in customers accepting a worse deal than pre-Merger (eg higher prices, lower commissions or worsening of other non-price competitive parameters, such as quality or service levels).

Framework for analysing the competitive effects of the Merger

7.13 In both tendering and bilateral negotiations, we are concerned about the strength of the Parties, relative to each other and the rest of the market, and the number of credible providers available to each customer. As such, we can carry out a single competitive effects analysis which will cover both forms of contracting and will analyse the number and strength of other providers (i.e. outside options) available to customers.

7.14 JLA submitted that the CMA assessment should also consider (i) what would have happened absent the Merger (e.g. in JLA's view, Washstation moving along a trajectory of winning fewer contracts each year from 2015); and (ii) what has happened post-Merger taking into account the new competitive force coming from Hughes/Armstrong. We addressed point (i) and (ii) in paragraphs 5.13 to 5.37 and in paragraphs 8.61 to 8.79, respectively.

7.15 In the rest of this section we assess:

(a) The competitive interactions between JLA, Washstation and Armstrong[131] and how closely they were competing in the period prior to the Merger (before May 2017). This assessment includes analyses of:

(i) Market shares over time and of new contracts;

(ii) Contract sizes and commission rates to assess whether Washstation and Armstrong were able to compete for the same customer types as JLA;

(iii) Who JLA lost contracts to (‘switching ratio analysis);

(iv) Internal documents, third party hearings and customer research on providers’ strengths and weaknesses and the closeness of competition between them when contracts were awarded.

(b) Evidence that changes in competitive dynamics have occurred as result of the Merger (after May 2017). This assessment includes:

(i) Analysisof how JLA’s commission rates have changed since the Merger

(ii) Review of third party comments

(iii) Review of evidence submitted by JLA on pre- and post-Merger service level key performance indicators (**KPIs**).

Assessment of pre-Merger competition

Introduction

7.16 Our analysis of the pre-Merger competition draws on a number of different sources of evidence, including:

(a) contract data provided by the JLA and third parties;

(b) tendering data provided by JLA;

(c) the CMA’s customer research;

(d) hearings with a number of third parties; and

[131] Armstrong supplies machines to Goodman Sparks and, as Goodman Sparks is a smaller player with regional presence, Armstrong cooperates and competes through Goodman Sparks in the regions in which Goodman Sparks is present.

(e) Washstation and JLA internal documents.

JLA's submission

7.17 JLA submitted that Washstation was a small competitor, equivalent to less than [✂]% of JLA's pre-Merger turnover, which focused on a narrow segment of commercial laundry. Within the supply of managed laundry services under vend share agreements solely to higher education customers, JLA estimates that Washstation only won [✂]% of the contracts by value that JLA retained, won or lost in the period January 2016 to May 2017, which, according to JLA, illustrates the limited (and declining) constraint Washstation imposed pre-Merger and the small magnitude of any business lost by JLA to Washstation. JLA also told us that Washstation was much smaller than other competitors in commercial laundry which cater to a broader range of customer and contract types.

Market shares

7.18 Market shares, both in absolute terms and relative to each other, can give an indication of each of the Parties' competitive strength and how they compare to other players in the market.[132]

7.19 Based on the data available, we calculated market shares by revenues (pre-commission) between 2010 and 2017 for the supply of managed laundry services to higher education customers under vend share agreements. These shares are based solely on revenues earned on vend share agreements:

(a) For JLA and Armstrong, the annual stock of existing contracts (including rolled over contracts), as well as any business won or lost during each year.

(b) For Washstation, all revenue from contracts active in 2017; Mr Copley submitted that "Washstation never lost a contract".[133/134] As such, we have assumed that the stock of Washstation active contracts in 2017 is similar to the stock of active contracts in each year between 2010-18.

(c) For Goodman Sparks, all revenues from relevant contracts in 2015, 2016 and 2017.

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[132] MAGs, paragraph 5.3.4
[133] Summary of hearing with Mr Copley, paragraph 18.
[134] JLA told us that Mr Copley submitted incorrect information, as pre-Merger, JLA and Armstrong won contracts from Washstation. However, data provided by Armstrong indicates that Armstrong [✂] from Washstation during the period considered ([✂]) and JLA data shows it only won [✂] contracts previously held by Washstation.

7.20 The market share data indicates that in 2017, the merged entity had a combined market share of around [90%-100%], with a [5-10]% increment. Based on reported revenues, the sector has been expanding at a rate of approximately [10-15]% each year (see Figure 12).

7.21 Since market shares represent the stock of contracts, and competition for contracts is sporadic,[135] market shares may be a weak indicator of the competitive conditions in the market (eg in terms of showing the competitive strength of a competitor that is growing). However, even with this limitation, we note that, since its entry in 2009, Washstation was able to gain around [5-10]% of the total market, increasing its revenue from less than £[0-2] million in its first years (2009 to 2010 with 5 contracts) to almost £[3-5] million (with [✂] contracts in 2017). In contrast, Armstrong's and Goodman's activity in the sector has been stable over time.

Figure 12: Market shares of JLA, Washstation, Armstrong and Goodman Sparks on vend-share agreements in the higher education sectors based on of pre-commission revenues in 2011-2017

	Revenues pre-commission (£m)				*Revenue Shares (%)*			
Year	*JLA†*	*Washstation††*	*Armstrong‡*	*Goodman Sparks**	*JLA*	*Washstation*	*Armstrong*	*Goodman Sparks**
2011	[✂]	[✂]	[✂]	-	[90-100]%	[0-5]%	[0-5]%	-
2012	[✂]	[✂]	[✂]	-	[90-100]%	[0-5]%	[0-5]%	-
2013	[✂]	[✂]	[✂]	-	[90-100]%	[0-5]%	[0-5]%	-
2014	[✂]	[✂]	[✂]	-	[90-100]%	[5-10]%	[0-5]%	-
2015	[✂]	[✂]	[✂]	[✂]	[80-90]%	[5-10]%	[0-5]%	[0-5]%
2016	[✂]	[✂]	[✂]	[✂]	[80-90]%	[5-10]%	[0-5]%	[0-5]%
2017	[✂]	[✂]	[✂]	[✂]	[80-90]%	[5-10]%	[0-5]%	[0-5]%

Source: CMA analysis of JLA revenues data pre- and post-commission (2007 – 2017), Washstation revenues on active contracts, Armstrong revenues data on contracts (2011-2018) and Goodman Sparks data
† JLA data include all JLA contracts (existing, new business, retained) for vend share agreements in the higher education sector as well as contracts for vend share agreements in other sectors (i.e. keyworkers, leisure, local authority, [✂]). Annex 10.1 sent as response to question 10 of Section 109
†† Washstation's revenues (pre- and post-commission) on active vend share agreements in 2017, including contracts for higher education sector and other sectors (i.e. leisure)
¥ Armstrong's revenues (pre-commission) on vend share agreements active between 2011 and 2018, for the higher education sector only
* Goodman Sparks data only available for years 2015, 2016, 2017

Annual share of new contracts

7.22 Given the limitations of the above analysis, we calculated the number of new contracts[136] won in the higher education sector (i.e. this excludes rolled over

[135] We interpret market shares with a degree of caution, as the fact that this is a bidding market means that shares of current market revenue may not reflect the ability to win or compete strongly for business going forward.
[136] Our analysis has focused on contracts won rather than customers won. Contracts are not grouped by customer in the dataset making aggregation difficult. Furthermore, we have evidence from the CMA's customer research showing that some customers procure from multiple sources, as such different contracts from the same customer can represent independent procurement events. We do not have information on which contracts in our dataset were let or awarded together and as such cannot aggregate them.

contracts) by each party between 2010 and 2017 and their respective annual shares of revenues.[137]

7.23 Figure 13 shows revenues on new contracts.[138] We note that the number of contracts awarded by higher education customers peaked in 2015.[139] The data shows that from 2013 onwards Washstation was able to win around [10%-30%] of contracts (by value) available in the market. On the other hand, competition from Armstrong was relatively weak, with Armstrong generally winning less than [0-10]% of contracts by value.

Figure 13: revenues on new contracts (excl. rolled over and retained contracts) won each year by JLA, Washstation and Armstrongon higher education customers and revenues shares: 2011 -2017

Year	*Revenues on new contracts won (£m)*			*Revenue Shares on new contracts (%)*		
	JLA	*Washstation †*	*Armstrong*	*JLA*	*Washstation*	*Armstrong*
2011	[✂]	[✂]	[✂]	[70-80]%	[20-30]%	[0-5]%
2012	[✂]	[✂]	[✂]	[90-100]%	[0-5]%	[0-5]%
2013	[✂]	[✂]	[✂]	[80-90]%	[10-20]%	[0-5]%
2014	[✂]	[✂]	[✂]	[80-90]%	[10-20]%	[0-5]%
2015	[✂]	[✂]	[✂]	[70-80]%	[20-30]%	[0-5]%
2016	[✂]	[✂]	[✂]	[70-80]%	[20-30]%	[0-5]%
2017	[✂]	[✂]	[✂]	[70-80]%	[10-20]%	[0-5]%

Source: CMA analysis of JLA revenues data pre- and post-commission (2007 – 2018), Washstation revenues on active contracts, Armstrong revenues on active contracts (2018)
† We note that the 2017 figures need to be interpreted with caution because Washstation was acquired by JLA in May 2017

7.24 JLA submitted that by considering only revenues on new contracts won each year, the CMA has not only excluded rolled-over contracts, but has also excluded contracts which were renegotiated but eventually retained by JLA. Adjusting the analysis to include retained contracts would increase JLA share of contracts and decrease others' shares.

7.25 In data submitted for the purposes of analysing whether prices had changed post-Merger, JLA assigned an indicator to each rolled-over contract to separate them in to those where a new contract was signed and those where the same contracts was rolled over.[140] In order to estimate the potential effect on annual contract revenue of including contracts that may have been renegotiated, we included those contracts which were labelled new contract

[137] Annual shares of revenues within a certain year includes revenues earned on contracts on an annual basis. Therefore, revenues earned on new contracts signed throughout the year (e.g. October) were annualised. For example, if a contract was won in May 2015, the dataset only reported revenues for May onwards. Hence, we reported the revenues that this contract earned the year after (e.g. 2016) as a proxy of the annual value of the contract.
[138] For example, in 2014 JLA won [✂] new contracts with a value of £[✂] million
[139] We do not know the reason(s) of this peak.
[140] JLA explained that these contracts labelled as "same contracts" refer to contracts that were extended over which means that the original agreement continues to be in force: "*the original terms continue to apply but as the initial end date has passed, the customer can terminate the contract any time with reasonable notice and/or seek alternative options at any time*". These contracts account for [✂]% of all contracts renewed in the dataset.

when calculating the share of annual contracts. This implies that, assuming that contracts marked as 'new' were competed over, Washstation's share of new contracts would decrease by [✂] and [✂] percentage points (around 33%) in 2016 and 2017, respectively. It should be noted that the dataset does not classify contracts that rolled over in 2013, 2014 or 2015 into new or same, as a result there is little change in the earlier years.

Figure 14: Revenues on new contracts and retained contracts (excluding rolled-over contracts) won each year by JLA, Washstation and Armstrong

	Revenues on new contracts (£m)			*Revenues shares on new contracts (%) Difference from Figure 13 in brackets*		
Year	*JLA*	*Washstation*	*Armstrong*	*JLA*	*Washstation*	*Armstrong*
2013	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]%
2014	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]%
2015	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]%
2016	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]%
2017	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]%

Source: CMA analysis of of JLA revenues data pre- and post-commission (2007 – 2018) and JLA data on resigned contracts including vend price (RBB), Washstation revenues on active contracts, Armstrong revenues on active contracts (2018)

7.26 A new contract could be signed for a number of different reasons, and does not necessarily indicate that there has been competition for that customer (for instance a customer may want a change in their terms). We have looked at the CMA's customer research to see if there is any indication of whether customers seek alternative providers when rolling over a contract. The customer research indicates many contracts are extended or rolled over without the customer considering alternative providers.[141]

7.27 Therefore, in the absence of evidence that competition occurred for contracts marked as new by JLA we consider that Figure 13 provides a better representation of the competitive conditions in the market. In any event, we note that based on the data in Figure 14, the Parties are each other's closest competitors.

Analysis of size of customers in 2017

7.28 In order to assess closeness of competition amongst the three main providers of managed laundry services to higher education customers, we have also analysed the contracts held by JLA, Washstation and Armstrong in 2017 to

[141] Indeed, the CMA's customer research indicates that for JLA's customers (41 out of the 59 respondents), 17 respondents rolled over their contracts with JLA without considering any other providers These customers were mostly private accommodation providers (11 respondents) and universities (7 respondents). See Table 13 of the CMA's research to inform JLA/Washstation acquisition.

determine whether any of providers were systematically better or worse at winning bigger or smaller customers compared with the other providers.[142]

7.29 By grouping JLA, Washstation and Armstrong customers by spend in 2017, we noted that the large majority of JLA's ([✂] out of [✂]), and Armstrong's customers ([✂] out of [✂]), as well as over half of Washstation's customers ([✂] out of [✂]) had contracts generating less than £50,000 per year. The remainder of customers[143] which were above £50,000, accounted for [✂]%, [✂]% and [✂]% respectively of JLA's, Washstation's and Armstrong's total number of customers.[144] This implies that Armstrong has a lower proportion of larger customers than JLA or Washstation, which may indicate that Armstrong is less able to win larger contracts than JLA or Washstation. However, we note that Armstrong only has a very small number of contracts in total.

7.30 This implies that JLA and Washstation compete more closely across customers of all sizes, whereas any competitive constraint that Armstrong might impose on the Parties was mainly in the competition for smaller customers.

Analysis of Commission rates

7.31 In principle, firms that compete closely would be expected to charge or set similar prices (ie in this case commission levels) over time, all other things being equal. We therefore compared JLA's, Washstation's and Armstrong's revenue weighted average commission rates[145] over the period 2012 to 2017.[146]

7.32 We found that both JLA's and Washstation's commission rates increased over time (ie the effective price paid by higher education customers fell, on average), which could be due to competition between them. In contrast, [✂].[147]

[142] Since data was only available from Armstrong at the customer level, we have focused our analysis on size of customers (all contracts won with a customer) rather than size of individual contracts.
[143] For JLA [✂] out of [✂] customers, for Washstation [✂] out of [✂] customers and for Armstrong [✂] out of [✂] customers. Customers spending above £50,000 are typically large universities and private student accommodations.
[144] Customers having contracts above £50,000 generated revenues of £[✂] for JLA and £[✂] for Washstation. In 2017, JLA reported total revenues of £[✂] while Washstation reported total revenues of £[✂].
[145] Weighting commission levels by revenue allows us to control for the size of each contracts or customer meaning that small contracts do not disproportionately influence the reported mean.
[146] $weighted\ commission_t = \sum_i \{ (\frac{Revenue_{i,t}}{\sum_i \{Revenue_{i,t}\}}) * commission_{i,t} \}$
[147] This is based on Armstrong's set of customers which we noted it is much narrower than the one that JLA or Washstation have.

7.33 We also looked at the maximum and minimum commission rates for JLA, Washstation and Armstrong in each year. Overall, Washstation and JLA offered the highest commission rates (with a maximum of [✄]% and [✄]% respectively) and their maximum commission rate increased over time. On the other hand, Armstrong's maximum commission rate was [✄]. If [✄] were excluded from the analysis, Armstrong's maximum commission rate would be [✄]%. If JLA's and Armstrong's top customers were excluded, their maximum commission rate would still be around [✄]%.

Provisional view on market share and commission analysis

7.34 Taken together, we consider that the analysis of data on market shares, new contracts wins and commission rates indicate that Washstation was the strongest competitor to JLA and that it was growing, with Armstrong representing a much weaker constraint.

Competitive interactions

7.35 Historical data on formal tenders and informal negotiations, can be informative of:

(a) the alternative providers that customers consider over time;

(b) the relative strength of each of these providers in respect to specific customer requirements; and

(c) the closeness of competition between providers that were competing for the same contracts (eg where customer final rankings or scores assigned to each provider based on the various criteria considered are available).

7.36 In this case, there are, however, limitations to the tender data available which reduce the scope of the analysis we are able to undertake. In particular, the dataset[148] only includes: new contracts won by JLA and contracts held by JLA that it either bid for and won or bid for and lost between 2015 and 2018 in the higher education sector. As such, we do not have information on contracts not previously held by JLA, which JLA bid for and did not win. Also, the dataset

[148] JLA assembled a data set on new, retained and lost contracts which JLA tendered, or negotiated, for between 2015 and 2018 in the higher education sector for the purposes of the merger investigation. Where possible, for contracts won and retained, JLA commented on the procurement process used to award the contract such as tender, negotiation, or rolling contracts. However, most of the time (around [✄]% of the time) the process was not specified, or marked as unknown. For Washstation, JLA submitted data on contracts which JLA is aware Washstation won between 2015 and 2017.

does not include complete information on who participated in each bid.[149] Hence, we have only been able to analyse switching rates.[150]

7.37 A short description of the data is provided below:

(a) New contracts won refers to new business won by JLA which was not previously part of the JLA contracts portfolio. The CMA understands that these contracts were awarded to JLA through both tenders and negotiations. These contracts represented around [40-50]% of JLA's total contracts in 2016.

(b) Contracts retained refers to JLA contracts which expired and JLA was able to retain. These contracts refer to rolled over contracts (contracts for which customers did not re-tender or re-negotiated the terms but re-signed the same contract) and retained contracts (contracts which expired, went out for tenders or negotiations and JLA was able to retain by signing a new contract). These contracts represented around [50-60]% of all JLA contracts in 2016.

(c) Contracts lost refers to business that was part of JLA's contract portfolio but were lost to a competitor during tenders or negotiations. Only a small number of contracts were lost to competitors in 2016 (around [✂]%).[151]

Switching analysis

7.38 In order to better understand the competitive constraints faced by JLA over time when competing for managed laundry contracts in the higher education sector, we conducted a switching analysis exploring:

(a) Customers' switching patterns over time from JLA to competitors: the proportion of JLA contracts lost to Washstation, Armstrong or others;

[149] For instance: (a) The dataset does not include the names of all competitors for each tender, so we are not able to analyse participation rates; (b) the data does not include information on the rankings of competitors within each tender, so we cannot analyse their relative strengths and weaknesses in a systematic way. To complement the tender data submitted by JLA, we assessed information collected in the CMA's customer research, which captures ranking in competitive negotiations and tenders (see for example DJS customer research, question 25: "who came second in the bids evaluation? Who came third? These findings are presented in paragraphs 7.48-7.57

[150] The dataset does not include information to allow us to calculate how often bidders bid for the same contracts, how successful these bidders were and how customers ranked them relative to each other.

[151] We understand that this figure underestimates the total number of contracts that JLA lost as it does not take into account contracts, which were not previously part of JLA portfolio, for which JLA bid and lost.

(b) Customers switching patterns over time from JLA to self-supply: JLA customers who switched to the purchasing of machines instead of renting them through JLA vend share agreements.

7.39 Between 2015 and 2017, JLA only lost [✂] contracts for vend share agreements with higher education customers, of which [✂] were lost to competitors or self-supply[152] (representing less than [✂]% of total contracts). However, contracts lost to competitors and self-supply were more valuable than those that left the market, accounting for around [70-80]% of lost contracts by value.[153] We therefore only have a limited number of contracts to analyse.[154] In order to account for differences in the sizes of contracts which would make some losses more important than others, we report both the number of lost contracts and their value.

7.40 JLA noted that only a very small share of contracts were lost to Washstation (around [✂]% of all contracts that JLA won, retained or lost). However, as few contracts were lost by JLA to other providers, we cannot place particular weight on this figure which relates to all JLA contracts as it is not indicative of the relative strength of the competitive constraint that each of the remaining competitors imposed on JLA pre-Merger.

7.41 In fact, most of the contracts lost by JLA were lost to Washstation and Armstrong (around [90-100]% of contracts by value) while only a small proportion were lost to self-supply or other competitors (around [✂]% by value). In particular, the switching data shows that Washstation was the closest competitor to JLA by a significant margin before the Merger, and that Armstrong, other competitors and self-supply were weak constraints on JLA:

(a) During the years that Washstation was active in the market (up until May 2017), it consistently won the majority of contracts that JLA bid for and lost (when excluding market leavers).[155] These contracts were large in terms of value (around £[✂]between April 2015 and May 2017) when compared to the contracts won by Armstrong (around £[✂]between August 2015 and May 2017) and other competitors in the same period,

[152] [✂] contracts refer to the total number of contracts lost by JLA to all sources; including competitors, self-supply and market leavers between 2015 and May 2017.
[153] The total value of JLA contracts lost to competitors and self-supply account is £[✂] over 2015 to May 2017. The total value of all JLA's contracts lost which also include market leaver is £[✂] for the same period.
[154] This may affect the way in which results are interpreted when looking at proportions by year and by competitor (for example, if in 2016 two contracts out of four would have been lost to Armstrong this would result in a 50% switching ratio).
[155] We excluded from our calculations the contracts that JLA lost as they left the market (i.e. contracts that were not renewed at all nor with JLA, nor with a competitor nor with self-supply).

suggesting that Washstation was the main constraint faced by JLA in the market.

(b) Armstrong only won [a very limited number of contracts] from JLA, with a value of around £[✂] between 2015 and 2016 and [a very limited number of contacts] [✂]of [✂] in the first half of 2017. Armstrong's performance post-Merger is analysed in paragraphs 8.61 to 8.79.

(c) Other providers represented a very small constraint on JLA. Overall, only [✂] lost to another competitor between 2015 and 2017 accounting for a value of around £[✂].

(d) Similarly, [✂] customers chose to start self-supplying. Self-supply only accounted for a very small part of JLA total lost contracts, having a value of between £[✂]to £[✂], and most of those contracts relate to a single customer that JLA lost in 2016. This is consistent with what we heard from customers who told us that they would choose to buy machines directly for small sites only.

(e) Overall market leavers[156] accounted for a substantial proportion of JLA lost customers with contracts having a value of between £[✂]to £[✂]depending on the year considered. However, we do not know the reason why these customers left the market, and what laundry solution, if any, they put in place, or whether a laundry facility at those sites was still required.

7.42 The number of contracts won by each competitor can be divided by the total number of contracts lost by JLA in the same year to calculate the proportion of revenue lost to each competitor ('switching ratio'). We have excluded those customers who did not renew the contract at all, such as closed sites from this analysis (Figure 15).[157]

Figure 15: Switching ratios by value of contracts lost: 2015 - 2017

		2015		*2016*		*Jan-May 2017*
	%	*Value (£'000)*	*%*	*Value (£'000)*	*%*	*Value (£'000)*
Washstation	[✂]%	[✂]	[✂]%	[✂]	[✂]%	[✂]
Armstrong	[✂]%	[✂]	[✂]%	[✂]	[✂]%	[✂]
Other	[✂]%	[✂]	[✂]%	[✂]	[✂]%	[✂]

[156] Market leavers refers to contracts that JLA labelled in the dataset as "closed down".
[157] The weighted switching ratios have been calculated by considering on the numerator the total number of lost contracts to a certain competitor (eg Washstation) times their total value within a certain year (eg 2016) and on the denominator the total number of contracts lost (excluding contracts who left the market) times their total value for the same year. For example, we would calculate the switching ratio to Washstation in year 2016 as follow:

$$\frac{(\sum lost\ contract\ to\ Washstation_{2016} \times \sum Value\ of\ contracts\ lost\ to\ Washstation_{2016})}{((Tot\ contracts_{2016} \times Tot\ value\ contracts_{2016}) - (Tot\ Leavers_{\ 2016} \times Tot\ value\ leavers_{2016}))}$$

Self-supply	[✂]%	[✂]	[✂]%	[✂]	[✂]%	[✂]

Source: CMA analysis of JLA data on contracts lost.

7.43 The switching data shows that the large majority of revenue lost by JLA was lost to Washstation, with Armstrong, self-supply and others accounting for a very small proportion of revenue lost by JLA.

Provisional views on analysis of data on past competitive interactions

7.44 From our analysis of the evidence from past tenders and contract negotiation, recognising the limitations of the data we received, we provisionally conclude that JLA and Washstation were each other's closest competitors, with Washstation accounting for the large majority of revenue lost by JLA. Armstrong was the only other credible competitor during this period, although the data indicates that Armstrong (and self-supply) represented only a very limited constraint on JLA.

CMA's customer research

7.45 The full results from the CMA's customer research are contained in the DJS customer research report.[158] Below we summarise the evidence from this report in relation to the competitive interactions between JLA and Washstation and between the Parties and other providers.

JLA's submission

7.46 JLA submitted that the results of the CMA's customer research need to be considered in the context that there were only 59 respondents. JLA also notes that other sources of evidence point to providers other than those mentioned by the respondents to the CMA's customer research also competing for managed laundry contracts.[159]

7.47 As explained above in paragraph 3.20, we adopted a qualitative rather than quantitative approach to analysing the research results, looking at broad patterns of responses and without placing particular weight on individual figures.

[158] See published report on the CMA case page: DJS customer research to inform JLA/Washstation acquisition
[159] See, for example, Goodman Sparks' involvement in the last tender of the [✂], Thain won a contract in the higher education sector (as mentioned in the CMA's phase 1 decision) and Laundry 365 was ranked as second provider by Regent's Park College (see Summary of hearing with Regent's Park College, paragraph 4).

Competition between JLA and Washstation

7.48 The CMA's customer research shows that both JLA and Washstation offered similar type of services to their higher education customers for managed laundry services including:

(a) a variety of payment methods including top-up cards, online payments, cash, mobile payments and debit or credit card methods.[160]

(b) online services, mostly to check the availability of machines and make online payments.[161]

7.49 Overall, respondents considered[162] that JLA had a strong reputation and offered advanced systems (such as online payment and online laundry monitoring), but could be more expensive and reactive in terms of service. Washstation was considered to pay higher commissions and perform well in terms of the speed of service response. However, it was perceived to have less national coverage than JLA, and its reputation was not as good as JLA's.

7.50 When asked about the providers who they considered in tenders and negotiations, respondents indicated that JLA and Washstation were closely competing with each other. In particular:

(a) with regard to formal tenders, the customer research results show that JLA won 10 out of 17 formal tenders, with Washstation being ranked as second four times and it was mostly considered as very close or close to JLA. There was no other provider bidding in 3 of the 6 instances JLA won.[163] Washstation won in five instances out of eleven. Of these JLA was second once. There were no instances where JLA won the tender and Washstation came third or fourth or vice versa.[164]

(b) when it comes to getting quotes directly, JLA was approached for quotes for all contracts Washstation won (two times) and it was the second

[160] For both Parties pre-paid / top-up cards were the most used payment system, followed by online and mobile payment and then cash. See response to Q8.
[161] In addition to those services, some respondents also used SMS or email services from JLA (no Washstation respondent used these services). Only eight out of 41 JLA's customers, and one out of 10 of Washstation's, told us that they do not use any online service. Response to Q09
[162] The CMA's customer research probed on the strengths and weaknesses of individual providers.[162] It is important to note that these questions were only asked of those who rejected Washstation or JLA at some point during the tender process or while getting quotes directly and only nine respondents provided comments on JLA and 11 on Washstation. See response to Q16, Q24, Q32 and Q34
[163] In the other three instances where JLA won: (i) in 2 instances Armstrong was second, and (ii) in 1 instance another unnamed provider (the respondent couldn't remember the name) was second.
[164] DJS customer research report, Table 19. Based on Q22,Q23

choice in both instances. In four out of nine instances where JLA won, Washstation was ranked as second. There were no instances where JLA won the contract and Washstation was third or fourth choice or vice versa.[165]

Competition from other providers

7.51 The customer research included Armstrong's and Goodman Sparks' customers, with seven Armstrong customers responding and one Goodman Sparks customer.[166]

7.52 In contrast to JLA and Washstation's customers - who used a variety of payment methods and online services – Armstrong's and Goodman Sparks' customers reported to only having cash- or token- operated machines, with no online services being offered to them by their provider.[167][168]

7.53 When asked about the providers considered in recent tenders or negotiations, respondents indicated that Armstrong participated in a smaller number of bids (four bids in total) [169] and negotiations than JLA and Washstation.[170]

7.54 Respondents were then probed on the strengths and weaknesses of individual providers. These questions were asked of those who rejected Armstrong or Goodman Sparks at some point during the tender process or while getting quotes directly and only four respondents provided comments on Armstrong and one on Goodman Sparks. Their responses indicated that:[171]

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[165] See Q31, Q33, Q35, and Q39. In the instances where JLA won the contract, there was a maximum of two providers who provided a quote. There was only one instance where Washstation won the contract and more than two providers provided a quote. In this instance JLA came second and Wilson Electrics came third.
[166] These customers appeared slightly smaller than JLA or Washstation's, with only one of them having more than 19 machines under the contract discussed in the interview. In contrast four of Washstation's ten customers and 25 of JLA's 41 customers had more than 19 machines. See response to Q7
[167] Response to Q08. Cash and tokens were the only payment methods used by Armstrong and Goodman Sparks customers, with 7 out of 8 customers reporting to have cash-operated machines. One customer also reported that no payment was required on their machines.
[168] JLA submitted that, since the Merger, Armstrong has won two contracts with cashless payment solutions. Moreover, JLA added that Goodman Sparks said that it has an online monitoring solution in place. However, we also note that when talking about its online solution, Goodman Sparks added that it is not as robust or reliable as the one developed by Circuit (LaundryView system) (see Summary of hearing with Goodman Sparks, paragraph 16).
[169] JLA noted that Armstrong's bids met the bidding requirements in all four cases.
[170] In respondents' recent tenders, Armstrong submitted a lower number of bids (four bids) than JLA (17 bids) and Washstation (11 bids). Armstrong won 2 of these four bids. In these two bids, JLA was ranked second and in the remaining two bids that Armstrong lost, it was ranked as second after Washstation. Moreover, Washstation did not bid in the tender in which Armstrong was ranked second after JLA. See Q22, Q23, Q25 and Q29. In direct negotiations Armstrong was approached in five instances, submitted five bids and won three contracts. See responses to Q31, Q33, Q35, Q39.
[171] Response to Q16, Q24, Q32, and Q34.

(a) Armstrong have a positive service attitude and they are seen as an approachable company. However, its lack of modern technology, national coverage and experience are key drawbacks.

(b) Goodman Sparks strengths are in communication and speed of response, but its lack of modern technology is a key weakness against other providers.[172]

7.55 Respondents rarely got bids from other providers in tenders or negotiations. The only providers mentioned were PHS Laundryserv (now part of JLA), Clean Machine (part of JLA), Wilson Electrics (part of JLA). Four respondents could not name the provider that submitted one of the offers. [173] All the providers named by the respondents are currently owned by JLA.

7.56 When asked about their most recent procurement exercise, respondents did not mention any of the providers that JLA identifies as being active in the supply of managed laundry services: Goodman Sparks, Brewer & Bunney, Girbau, Photo-Me, Laundry 365, Wolf Laundry, LPD, Thain Commercial, Hughes, Electrolux distributor or Miele distributor.

7.57 Moreover, most respondents (47 out of 59) said that they have not become aware of any new providers since they last procured for laundry services. The providers mentioned by the 12 respondents that had heard of new providers were Washstation (4 mentions), JLA/Circuit (1 mention), a Miele distributor (1 mention), Hughes (2 mentions) and Armstrong (1 mention). Four providers were unable to remember specific names.[174]

Provisional view on customer research evidence

7.58 Even if sample sizes are too small to allow us to put significant weight on individual figures, the following broad findings can be drawn from the results of the CMA's customer research:

(a) JLA holds an influential position in this market;

[172] JLA submitted that it is incorrect to state that Armstrong and Goodman Sparks lack modern technology as they are now offering online monitoring services. However, evidence from hearings and from the CMA's customer research indicates that customers perceive Armstrong and Goodman Sparks to lack in modern technology (app) and to not be able to offer adequate payment systems.
[173] They submitted a total of six tenders and they met requirements in four of them. In no instances were any of these providers ranked as first. In two tenders, they were ranked as third. For the 14 customers who requested a quote, other providers were approached in three instances, submitted three bids and won zero contracts.
[174] Questions 44 and 45.

(b) JLA and Washstation have the technology to offer a range of payment methods and online services, which other providers appear not to have;

(c) JLA and Washstation are the two main providers of managed laundry services to higher education customers with the only other credible alternative being Armstrong; and

(d) there is little evidence to suggest that other providers of commercial laundry services are widely known in the higher education sector.

Third party submissions

Evidence on competition between Parties

- *Customers*

7.59 During the course of our phase 2 investigation we held hearings with five customers. Three of these customers were supplied by Washstation at the time of the Merger and two were supplied by JLA.

7.60 Three of the customers had considered both JLA and Washstation when awarding their last contract for managed laundry services. They told us that, overall, Washstation's and JLA's offerings were similar in terms of service levels and commission. Some customers had a preference for Washstation (UPP and Regent's Park College), whilst others ([✂]) scored JLA higher in their tendering process:

(a) UPP told us that although Washstation's and JLA's offerings were similar overall, they preferred Washstation's offering because Washstation sent a dedicated engineer to inspect the machines weekly.

(b) [✂] told us that in 2016, [✂] approached them informally and provided assurances that it could deliver the same offer as JLA. However, in the tender process, JLA scored better than [✂] so JLA won the contract. The split of scoring in the tenders was [✂]% for quality (service delivery, tender specification, customer management, environmental sustainability and any other add-on value) and [✂]% for costs. In general, JLA had a better proposition, whereas [✂] seemed to have [✂]. [✂] also added that they conducted financial checks on the two potential providers, and JLA seemed to be more financially reliable and sustainable. [✂] provided us with tender documents that showed that [✂].

(c) Regent's Park College (**RPC**) told us that their laundrette was managed by JLA until January 2017. However, in January 2017 they moved to

Washstation. RPC also told us that when it wanted to renew the contract, JLA was proposing to increase the vend price quite significantly,[175] beyond £2 a wash/dry, and JLA would not negotiate on this point (previous vend prices with JLA were £1.40 for a wash and £1.40 for a dry). RPC went for Washstation who offered £1.60 for a wash and £1 for a dry.

7.61 In phase 1 of the CMA's investigation, questionnaires were sent to a number of customers of the Parties and responses from 83 customers were received. Some of these customers were subsequently contacted by either the CMA or DJS as part of our phase 2 investigation. As such, this evidence may not be independent of other evidence we have already discussed, so we have only looked to see if it is consistent with the CMA's customer research and the phase 2 hearings.

7.62 Responses to the phase 1 questionnaire suggest that customers considered that JLA and Washstation were competing closely for the same customers and they were winning customers from each other, although JLA was overall more active in the tendering/negotiation process than Washstation. In particular:[176]

(a) Among those who tendered (21 respondents), Washstation and JLA both competed against each other in ten tenders[177] with a value between £[✄] and £[✄]. Of those: (i) seven tenders were won by JLA and Washstation was ranked as second; and (ii) three tenders were won by Washstation and JLA was ranked as second.

(b) Among those who negotiated directly with providers (11 respondents), JLA participated in all of them and Washstation competed against JLA in five of these contracts. Of those four contracts were won by JLA and Washstation was ranked as second provider three times and as third provider one time.[178/179]

[175] JLA commented that although they proposed an increase in the vend price this was still below the average.
[176] We asked customers who tendered less than three years ago and customers who negotiated directly with providers, to submit the names of the providers who participated to their tendering/negotiation process together with their ranking.
[177] In the remaining 11 tenders, JLA was the only competitor in 8 instances while it faced competition from Armstrong in 2 instances and from another unnamed provider in 1 instance.
[178] The provider ranked second in this tender was Armstrong.
[179] JLA noted that the results of the CMA's customer research show that, when competing against JLA, Washstation only won one contract from JLA and that customers identified a minimum of four competitors other than JLA and Washstation. We note that some of the competitors identified by customers as having participated in previous tenders were, since those tenders, acquired by JLA.

7.63 We consider that the evidence received during phase 1 is consistent with the results of the CMA's customer research and the CMA hearings with Washstation being the main competitor to JLA.

- *Competitors*

7.64 During the course of our phase 2 investigation we held in-depth hearings with two competitors and the former owner of Washstation, and shorter phone calls with another eight providers of commercial laundry services.

7.65 Half of the third parties (five out of 10) the CMA talked to considered that JLA and Washstation were competing closely for higher education customers, focussing their offer on commission and service levels:

(a) Mr Copley told us that Washstation offered good commission levels in the beginning to convince customers to change provider. The level could vary between [✂]% to [✂]% (with an average commission of [✂]%). Mr Copley said that Washstation might have lost some tenders to JLA because it had not offered a rate of commission as high as JLA. Mr Copley also added that Washstation's strategy was on services offered rather than commission, with weekly engineer's visits, promotional activities for students and online services (i.e. top-up cards online). Washstation did not offer an app but had been developing a similar payment app to JLA. Mr Copley also added that when competing against JLA, Washstation usually won around [✂]%-[✂]% of the tenders and that Washstation was "hurting Circuit".[180]

(b) Armstrong told us that Washstation competed vigorously for higher education customers and that it won a lot of customers from JLA.

(c) Maxwell Adam told us that when JLA and Washstation started competing against each other the commission level paid to the higher education customers increased and the percentage of the revenue was then in favour of the higher education customer, eg universities would get 60-70% of the revenue. Maxwell Adam said that this made it even more difficult for Maxwell Adam to enter the market.[181]

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[180] JLA found that this is an opinion hard to substantiate. If Washstation was winning 4-8% if contracts that JLA won/lost/retained and JLA was growing circa 12% per annum for 7 years.
[181] Summary of hearing with Maxwell Adam, paragraph 7.

(d) Goodman Sparks told us that it was very difficult to compete in the supply of managed laundry services to higher education against the Parties before the Merger.[182] Goodman Sparks also suggested, however, that the merger would represent an opportunity for them to grow in the market.

(e) Brewer and Bunny told us that JLA and Washstation were the main providers of managed laundry services to higher education customers before the Merger.[183]

Evidence on competition from other providers

- *Customers*

7.66 Four of the customers we talked to ([✂]) commented on alternative providers who they considered during tenders or the negotiation process. While [✂] issued formal tenders, [✂] told us that it contacted the providers directly after searching on the internet or asking for recommendation from other colleges. Armstrong ([✂]), Goodman Sparks ([✂]), Laundry 365 and Warwick Lpd ([✂]) were mentioned.

7.67 The University of Sheffield commented on JLA's and [✂] offerings. It told us that when compared to JLA, [✂].

7.68 In relation to their tendering processes are reported below:

(a) UPP told us that although Armstrong was able to meet some of its requirements in terms [✂]. UPP also added that although it noted an improvement in Armstrong's offering [✂]. UPP indicated that Goodman Sparks may be able to provide some sort of offering, but noted [✂].

(b) The University of Nottingham told us in its last tender, issued in 2011, only Washstation and Goodman Sparks submitted their bids - JLA did not express any interest. The University of Nottingham told us that it has now issued a new tender for which it received [✂] expressions of interest but only [✂] attended a site visit. The University of Nottingham noted that it struggled to find laundry service providers active in the higher education sector and it was very difficult to get more than two bids. The University of Nottingham received bids from [✂]. [✂] scored [✂] than [✂] across the different tender criteria.

182 Summary of hearing with Goodman Sparks, paragraph 3.
183 Summary of hearing with Brewer and Bunny, paragraph 5.

(c) The University of Sheffield told us that in the tender issued in 2011, t[✂]companies submitted a bid: [✂] and that [✂] had a significantly better bid than [✂]. In particular, [✂] offered better [✂]. In 2018, the University of Sheffield issued another tender and [✂]submitted bids. The University of Sheffield explained that the tender award criteria did not change significantly as regards services. The University of Sheffield said that [✂]performed much better compared to the 2011 tender and has improved the [✂].

(d) RPC said that it did not issue a formal tender when it last chose its managed laundry services provider (2017). RPC contacted some providers directly,[184] invited proposals, and Washstation seemed to be the best option. Other notable providers were Armstrong (who found RPC to be too small), Goodman Sparks (who also found RPC to be too small), Laundry365 and Warwick LPD (who did not offer a variable rental agreement). RPC found the potential providers via internet searches and from people in other colleges (who mostly used only JLA) and other universities. The second provider RPC would have contracted with was Laundry365, which was also offering a vend share model. RPC said that there were a fairly limited number of providers offering a variable rental model.[185]

7.69 During hearings, we also asked whether customers considered providing managed laundry services in-house by purchasing the machines directly. The University of Leeds was the only customer that expressed a preference for in-house provision, as it is refurbishing its student accommodations and will provide a domestic machine that students can use on each floor.

7.70 On in-house provision, UPP told us that it would only consider buying the machines if [✂]. In contrast, the University of Nottingham told us that it would not consider installing private domestic machines to replace its laundry rooms.[186]

[184] JLA submitted that the fact that RPC contacted providers directly is proving that even commercial negotiations are competitive. Yet, the we noted that Regent's Park College told us that although it contacted other laundry services providers which were not active in the higher education sector, they showed no interest in supplying managed laundry services.
[185] Summary of hearing with Regent's Park College, paragraph 4.
[186] Summary of hearing with the University of Nottingham, paragraph 8.

- *Competitors*

7.71 Of the firms we held hearings with, only Armstrong, Goodman Sparks and Photo-Me told us that it is currently active in serving higher education customers. We have first focused on their comments, before turning to other laundry service companies who are not currently active in serving higher education customers.

7.72 Armstrong told us that it would not find it worthwhile to compete with paybacks of 60-70% of turnover to the universities, which were offered by JLA and Washstation, as this would not have been profitable for Armstrong.[187] Armstrong said that the higher education customer segment is not the most lucrative segment, as the margins are small and it is not always certain whether the upfront costs (i.e. refurbishment and machines) and ongoing costs (i.e. servicing and maintenance) will be recouped.[188] Armstrong also gave as an example of sunk cost the requirement in a recent tender for a full refurbishment of all laundry rooms (including vinyl floors, which are very expensive).[189] This led to Armstrong focussing on other areas of its business.[190]

7.73 Armstrong currently mainly covers the South East of England (headquarters in Newbury) and Scotland. Armstrong noted its recent merger with Hughes will allow it to supply customers in areas in which it did not operate in previously and provide access to more financing. For example, Armstrong submitted a bid in [✂] because Hughes was present there.[191]

7.74 Goodman Sparks told us that it is a small and regional player, with relatively limited resources, [✂]. It mainly uses cash machines which require weekly collection, but has recently been using card readers which might enable it to offer services over a wider geographic area. Goodman Sparks aims to grow its managed laundry service business to higher education customers by [a limited number of contracts a year] [✂].[192]

7.75 Goodman Sparks said it was very difficult to compete in the supply of managed laundry services to higher education against JLA and Washstation

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[187] Summary of hearing with Armstrong, paragraph 10.
[188] Summary of hearing with Armstrong, paragraph 24.
[189] Summary of hearing with Armstrong, paragraph 26.
[190] Summary of hearing with Armstrong, paragraph 12.
[191] Summary of hearing with Armstrong, paragraph 16.
[192] Summary of hearing with Goodman Sparks, paragraphs 1 and 2.

active.[193] Goodman Sparks said it had not come across Armstrong competing for a higher education contract in the North of England. This is because Armstrong only covers the South, the Midlands, and Scotland.[194]

7.76 Photo-Me also told us that it has recently launched a new product, Revolution laundrette, in the market for the provision of laundry services but so far, it only has one higher education customer ([✂]). Photo-Me is not actively tendering for higher education customers as its offering does not lend itself to tenders which have prescriptive requirements. Photo-Me believe that its offering can be complementary to the services provided by managed laundry providers. The commission offered by Photo-Me ([✂]%) is at the lower end of the commission rates normally offered in the higher education sector. Photo-Me's laundry service proposition also differs substantially from the managed laundry services provided by JLA and Washstation.

7.77 Of the other competitors we talked to (Laundry 365, MAG, Thain Commercial, Wolf Laundry, Forbes, Maxwell Adam and Brewer and Bunney), none of them told us that they are currently active, in any meaningful way, in the supply of managed laundry under vend share agreement to higher education customers. Five competitors provided further details on their past activities in the higher education sector:

(a) Brewer and Bunney told us that it was active in the higher education sector until 2014 providing laundry services to two universities ([✂]) but that the commission level offered by JLA was and remains too high for them to compete for the provision of managed laundry services to higher education customers. Brewer and Bunney is not currently active and no longer monitors the higher education segment.

(b) Wolf Laundry noted that it submitted only one bid for the [✂] in the last three years but was unable to respond to all requirements of the tender which it considered to be highly prescriptive and tailored to the offerings of existing providers. In particular, Wolf Laundry indicated that the payment system software specifications were such that only JLA could have satisfied this requirement. Recently, Wolf [✂].

(c) Forbes told us that although it participated in a few tenders it did not succeed in winning because of the difficulties encountered in meeting customers' requirements during tenders. Forbes also told us that it had identified the higher education sector as a key area where it wants to

[193] Summary of hearing with Goodman Sparks, paragraph 3.
[194] Summary of hearing with Goodman Sparks, paragraph 4.

grow and had set aside capital to enter the market for the provision of managed laundry services to higher education customers, aiming to secure [✂] customers in the next 12 months. Forbes stated that, while Forbes Rentals would be willing to offer a vend share agreement, and commission levels might potentially be achievable, it prefers the fixed rental model. [195]

(d) Thain Commercial and MAG also told us that in the past they sold machines to universities, but that they are not currently active in this market and do not offer vend share agreements.

Conclusion on third party submissions

7.78 Overall, all third parties identified JLA and Washstation as close competitors. The submissions from competitors and other providers of laundry services indicate, that, with the exception of Armstrong, they exert a very weak constraint on JLA, because:

(a) they currently only serve a very small number of higher education customers and/or are relatively small companies, with limited financial resources and/or limited geographic coverage (eg Goodman Sparks, Wolf);

(b) they are not actively competing for these customers and, some of them do not offer vend share agreements at all (eg MAG, Thain, Brewer and Bunny),

(c) they only recently started competing for higher education customers, offer a different model and it is unclear whether they would succeed in winning these customers (eg Photo-Me, Forbes).

7.79 Customers only identify JLA, Washstation, Armstrong and Goodman Sparks as competitors in the supply of managed laundry services to higher education customers. Although some customers may have received expression of interest from other providers, some providers did not pursue the opportunity further or did not meet the customers’ requirements.

[195] Summary of hearing with Forbes. paragraphs 1 and 6.

Evidence from internal documents

7.80 From our review of internal documents, we found around 40 of JLA's documents (out of 1,400 documents reviewed) and around 25 of Washstation's documents (out of 660 documents reviewed) which were relevant to competitive interactions between the Parties.[196]

7.81 Internal documents show that JLA considered Washstation as its one major competitor. These include emails and responses to tender proposals where JLA competed directly with Washstation,[197], and a JLA strategy report (2016) where JLA mentioned Washstation as being their main competitor in the higher education managed laundry sector.[198] The documents also show that higher education customers used Washstation's presence as a bargaining tool when negotiating with JLA.[199] Similarly, Washstation's documents show that it closely monitored JLA's activity[200] and that Washstation was competing with JLA for higher education customers.[201]

7.82 We found around 20 documents which referred to competitive interactions between JLA and other competitors. Armstrong was the competitor more frequently referenced in the Parties' internal documents after Washstation. For example, we found documents showing that some customers considered Armstrong as an alternative to JLA and JLA conducted some monitoring of Armstrong. [202] [✂].[203]

[196] These numbers need to be interpreted with caution, as they also include documents which were not relevant such as documents duplicates and email chains.
[197] See tender document "*On behalf of the University* [✂]*, I am informing you that your tender for the above, further to evaluation in accordance with the criteria stated in the tender documentation was not successful. The first ranked tender was that of Washstation with a score of 90 marks. Your score was 86 marks."* See also (internal email): "[*W]e are up against Washstation in a test the market situation, so need to provide the wow factor in proposals".*
[198] See the following mail: *"The market landscape hasn't significantly changed in 2016 and we continue to have one major competitor, Washstation"*.
[199] See the following mail in which [✂] University is asking JLA to match Washstation on end-user price: *"We are currently in discussion with the university of* [✂] *who will take this accommodation. The University have said the prices from the current operator are £*[✂] *per wash and £*[✂] *per dry."* and *"[…] they need us to match [Washstation] prices for the wash and dry."* See also JLA0013641 [✂] threatening to switch to Washstation: "*if we can't agree then I will ask you to pull the equipment at* [✂] *because our agreement wasn't honoured. I am sure I can get Washstation to sign the current master agreement and they will [get] all the business moving forward*"
[200] See internal correspondence in connection with the [✂] (student accommodation providers) contacted Washstation to ascertain whether they would be interested in buying out their existing circuit contracts (five contracts). See also JLA0006739 internal Washstation document titled 'Current Projects'*: "*[✂] *… - We have been given the nod that they are now ready to cut Circuit off altogether"*.
[201] See correspondence between Washstation and a potential customer ([✂]): "*Thank you for your tender in response to our invitation to tender for the above contract. The tenders have now been evaluated and I regret to inform you that on this occasion your bid was not successful. Primarily the bid was unsuccessful because your total score was lower than the winning bid. Your final position was 2nd and you scored 80% in total. The contract has been awarded to Circuit Laundry Services Ltd which scored 90% in total.* "
[202] See internal JLA email dated Nov 2017: "[in *relation to* [✂]*], they would like to rent new machines off us. Armstrong have quoted the below and they have asked if we can match it".*
[203] We found two emails in which JLA referred to a bid lost to Thain Commercial in 2016.

Provisional view on competitive interactions pre-Merger

7.83 We provisionally consider that the evidence on the competitive interactions between the Parties and between the Parties and other competitors considered above (tender data, switching ratios, third parties' views, the CMA's customer research and internal documents) indicates that the Parties were each other's closest competitors. The other most credible competitor of the Parties was Armstrong, but the data analysis indicates that Armstrong represented only a limited constraint on JLA. Other providers of managed laundry services and self-supply represented only a very weak constraint.

Assessment of post-Merger effects

7.84 Since the Merger completed in May 2017, we have considered any evidence that changes in competitive dynamics have already occurred as a result of the Merger. We note that changes that have happened post-merger will not necessarily be informative of changes that would have happened absent the Merger, given that JLA was aware of the possibility of the Merger being investigated by the CMA and that the Merger was, in fact, being investigated by the CMA throughout that period.

7.85 In this section we:

(a) analyse how JLA's commission rates have changed since the Merger;

(b) review the responses to the CMA's customer research; and

(c) review the evidence submitted by JLA on pre- and post-merger service level KPIs.

Analysis of the evolution of commission rates since the Merger

7.86 JLA provided some data on its own contracts and the commission rates associated with them. JLA's analysis of its commissions found that the Merger did not lead to an increase in prices. A detailed description of this analysis can be found in Appendix E.

7.87 There are two main limitations to the analysis:

(a) The post-Merger sample of contracts spans from May 2017 to the end of December 2017. The CMA called in the Merger for investigation on 8 December 2017. In addition to this, JLA would have been aware at the time of the transaction (in May 2017) that the acquisition of Washstation might be subject of a CMA investigation. In light of both these considerations, JLA would have had an incentive not to increase prices (ie

reduce commission rates) in the period following the Merger. Therefore, the behaviour of JLA during the immediate post-Merger period may not be informative of its ability and incentives to set prices or depart from the terms which would apply pre-Merger.

(b) The model only seeks to show whether there is a change in commission rates as a result of the Merger. It does not account for a number of other parameters of the competitive offer which could have changed such as service quality. JLA submits that it has no incentive to degrade service quality since this will have the effect of decreasing its revenues, and that its internal statistics on service quality show that there has not been a degradation in service quality since the Merger. We note that the KPIs are related to JLA, which are not necessarily the same as those used by Washstation. We understand from the HSM that JLA was looking to honour the contractual obligations (eg repair times) by Washstation, but note that JLA has not fully done so. JLA's submissions on service quality since the Merger are covered in paragraph 7.97.

7.88 For these reasons, while this analysis does show that the Merger had limited effects on the renegotiated commission rates with respect to this particular group of customers in this period of time, our view is that the analysis does not demonstrate whether or not the Merger could lead to a worse offer post-Merger, both for existing and new contracts.

CMA's customer research

7.89 Research respondents were asked whether the quality of service provided by their laundry provider has changed in the last year.[204] The majority (48 out of 52 Washstation's and JLA's customers) said that the service has not changed, with a small number saying that the service has got worse (six respondents) or that it has improved (two respondents). Of 10 Washstation customers, nine said service was the same and one respondent said service had deteriorated.

7.90 Respondents who thought that the service has improved mentioned better engagement from the account manager and newer machines requiring less maintenance as the key improvements.

[204] Response to Q52 and Q53.

7.91 Respondents who thought that the service has deteriorated,[205] identified the following issues:

(a) increased number of breakdowns and call-outs;

(b) lengthy repair times;

(c) reactive, rather than proactive, provision of services;

(d) delays in the replacement of old machines;

(e) inflexibility of payment methods; and

(f) confusion in terms of responsibilities.

7.92 When asked directly what impact they expect the Merger to have on them as a customer, around half of respondents (24 out of 59) said 'neutral', around a quarter (13) said 'bad' and around 1 in 10 (5) said 'good'.[206] Those who thought the impact was positive mentioned easier management of multiple contracts and better service levels as reasons for their response.

7.93 The main reasons for expecting a negative impact were lower service levels and a lessening of competition, both resulting from an increase in JLA's size. For example, a private student accommodation provider said that there would be less competition in the market to keep costs down.

7.94 Further, a respondent said that it was unhappy with JLA's service levels and that JLA had no incentive to improve because "there is now little or no competition".

7.95 Respondents who thought the impact would be positive mentioned easier management of multiple contracts and better service levels as reasons. For example, a private student accommodation provider said that the merged firm would have more resources and more experience.

7.96 Further, a respondent said that it has contracts with multiple providers, and would benefit from "discuss[ing] all issues with a single provider".

[205] Six respondents responded to the open question Q53 "In what ways has the service improved/got worse?" with negative comments.
[206] Response to Q54 and Q55.

Review of the evidence submitted by JLA on pre- and post-Merger service level KPIs

7.97 JLA submitted four graphs comparing (i) the average response of Washstation and JLA between December 2017 to June 2018 (ii) the average response of Washstation and JLA between May 2016 and May 2018, (iii) the proportion of first time fix of Washstation and JLA between December 2017 and June 2018 and (iv) the proportion of first time fix of Washstation and JLA between May 2015 and May 2018.

7.98 The majority of this evidence, which appears to show that JLA's and Washstation's customers were offered similar service levels, is based on Washstation's performance post-Merger, when its customers have been served by JLA (ie not a comparison with the service level these customers received from Washstation before the Merger). As such, it is not possible to discern from this evidence whether there has been an effect due to the Merger.

Provisional conclusions on assessment of post-Merger effects

7.99 Our provisional view is that the above evidence on the effects of the Merger on competition between May 2017 and July 2018 does not demonstrate whether or not, within this period, there was a degradation of the Parties' offer.

Possible effects of a reduction of competition in the supply of managed laundry services

7.100 We have assessed whether the potential SLC resulting from the Merger may give JLA the incentive to deteriorate any element of its competitive offer.

7.101 In this market there are contractual relationships between customers and managed laundry providers. When contracts come up for renewal, or are first put to the market, providers are free to flex any element of their competitive offer, subject to their bid being compliant with any tender specification. Once the contract is signed, there is limited ability to change competitive parameters for the life of the contract without incurring contractual penalties.

JLA's submission

7.102 JLA submitted that vend share agreements create strong incentives for providers to offer rapid and effective service because their income depends on it. As a result, it would not have the incentive to deteriorate quality or service aspects of their offer.

CMA hearings

7.103 Goodman Sparks said that the Merger between JLA and Washstation has lessened competition in the market. It was very difficult to compete in the supply of managed laundry services to higher education with JLA and Washstation active. Goodman Sparks said that there is likely to be only JLA and Goodman Sparks competing for contracts in the North on which basis Goodman Sparks considered that it would have a better chance of winning a further higher education contract.[207]

7.104 Goodman Sparks 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. Goodman Sparks has looked at [✂]. Goodman Sparks is still awaiting the outcome of this tender.[208]

7.105 Goodman Sparks explained that the reason [✂][209] was that this tender was [✂] as a tender for a [✂] contract with the [✂]. Goodman Sparks was a small family business which has [✂]. In addition, there are the potential problems with lower commissions. Goodman Sparks said that the [✂], because the margins were low for a small company like Goodman Sparks.[210]

7.106 See Armstrong's submission above in paragraphs 7.72 and 7.73.

CMA's customer research

7.107 13 out of 59 respondents211 to the CMA's customers survey said that the Merger will have a negative impact. For example, one respondent was concerned that: JLA would have 'no incentive to improve service because there is now little or no competition'. Another respondent was concerned that 'There would be less choice, less competition in the market to drive standards and keep costs down'. Another respondent stated: as 'there are no other companies, Circuit can reduce commission and there is no one else to compete with the service'.

[207] Summary of hearing with Goodman Sparks, paragraph 3.
[208] Summary of hearing with Goodman Sparks, paragraph 5.
[209] Summary of hearing with Goodman Sparks, paragraph 6.
[210] Summary of hearing with Goodman Sparks, paragraph 6.
[211] Q54 and Q55. From the other 46 respondents: (i) 5 said that the Merger was good; (ii) 24 said that the Merger was neutral; and (iii) 17 respondent that they did not know.

Our assessment

7.108 Overall, the evidence above shows that, for new contracts, the Merger may provide the incentive to deteriorate any element of the competitive offer, including both price and service levels.

7.109 For existing contracts, the Merger may also provide the incentive to deteriorate service levels. The existing contract may not capture all the aspects of the service that the merged entity offers to their customers. Moreover, the service level offered Parties before the Merger might have been above the contracted level. When facing less competition, the merged entity would have less incentive to offer more than the services as contractually required.

7.110 In particular, we note that:

(a) evidence on the level of commissions (see above in paragraphs 7.86 and following) and service level KPI (see above in paragraph 7.97 and following) since the completion of the Merger cannot be given significant weight, because the merged entity may have avoided decreasing commission rates or worsening its service offer in anticipation of a potential CMA's investigation; and

(b) A worsening of the services parameters will not necessarily lead to loss of income generated by JLA's vend share agreements or a breach of contract. In fact, service levels can be degraded without resulting in a machine not being operational. Even if a machine is out of service, this would generally only affect JLA's revenue if there are no other operational JLA machines available in the laundry room that the students could use instead (either immediately or once the machine becomes available).

Provisional conclusion on the competitive assessment

7.111 Taken together, the evidence on the effects of the Merger on competition shows that Washstation competed strongly against JLA, with Armstrong representing a much weaker constraint (see market share analysis and our assessment of tender data and switching ratios).

7.112 Evidence from past tenders and contract negotiations shows that JLA and Washstation were each other's closest competitor, with Washstation accounting for the large majority of contracts lost by JLA. While Armstrong was the other most credible competitor, the available evidence indicates that Armstrong represented a weak constraint on JLA. Self-supply represented a very weak constraint.

7.113 Overall, all third parties identified JLA and Washstation as close competitors. Customers only identified JLA, Washstation, Armstrong and Goodman Sparks as competitors in the supply of managed laundry services (while some customers had, in some cases, received expressions of interest from other providers, none of these providers had ultimately been awarded a contract).

7.114 The submissions from competitors and other providers of laundry services indicate, at this stage, that, with the exception of Armstrong, other providers exert a very weak constraint on JLA. This is because alternative providers of laundry services: (i) currently only serve a very small number of higher education customers and/or are relatively small companies, with limited financial resources and/or a limited geographic presence, and (ii) are not actively competing for these customers and, in some cases, do not offer vend share agreements.

7.115 Internal documents also show that JLA perceived Washstation as a close competitor and took into account the risk of losing higher education customers to Washstation when formulating its offer. These documents also show that higher education customers used Washstation's presence as a bargaining tool when negotiating with JLA. JLA also considered Armstrong to be a competitor for some customers, with little evidence of JLA monitoring other providers.

7.116 The results of the CMA's customer research indicate that: (i) JLA holds an influential position in this market and that JLA and Washstation have the technology to offer a range of payment methods and online services, which other providers appear not to have; (ii) JLA and Washstation are the two main providers of managed laundry services, with the other most credible alternative being Armstrong.

7.117 On the basis of the evidence we have reviewed, we provisionally consider that the Merger is likely to result in an SLC in the market for managed laundry services to higher education customers under vend share agreements in the UK, subject to any countervailing factors.

7.118 For new contracts, the Merger may give JLA the incentive to deteriorate any element of the competitive offer, including both lowering the commission paid and service levels provided to customers. For existing contracts, the Merger may give JLA the incentive to deteriorate service levels, as it would have less incentive to offer more than the minimum services required under its contractual terms with customers.

8. Countervailing factors

Introduction

8.1 In this section we assess whether there are countervailing factors to prevent the SLC from arising. We consider two countervailing factors, these are entry and/or expansion and buyer power. For each countervailing factor we will explain under what conditions it may prevent the SLC and our analytical framework. We then analyse whether these conditions are met such as to prevent the SLC.

8.2 An SLC may be prevented by entry of new firms but also by expansion of existing firms. Expansion refers to actions taken by competitors to enhance their ability to compete against the merged firm. This may include by investing in technology, capacity, product design or repositioning of brands to compete more closely with the merged firm. When considering expansion, therefore, we examine the evidence on the way in which a third-party provider would expand the constraint that it exerts, rather than focusing on expected changes in its size.

Framework for assessment of entry and/or expansion

8.3 The MAGs provide that in assessing whether entry and/or expansion might prevent an SLC, we consider whether such expansion would be timely, likely and sufficient.[212] In summary:

(a) As regards the likelihood of expansion, we consider whether firms have the ability and incentive to expand.[213] There are industries that may appear to satisfy this condition (low barriers or lack thereof), but where nevertheless entry has been historically infrequent, or we find that candidate entrants are not planning to enter or expand such that entry or expansion is unlikely.

(b) As regards timeliness, expansion must be sufficiently timely and sustained to constrain the merged firm.[214] We normally consider entry and expansion that has a significant impact on competition within two years to

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[212] MAGs, paragraph 5.8.3.
[213] MAGs, paragraph 5.8.8.
[214] MAGs, paragraph 5.8.11.

be timely, although in some cases, we may extend this period.[215] In the context of a completed merger, we consider the horizon for timely entry or expansion to start from the time the merger is completed.

(c) As regards sufficiency, expansion should be of sufficient scope to deter or defeat any attempt by the merged firm to exploit any lessening of competition resulting from the merger.[216] Entry is unlikely to return prices to the same level as in the counterfactual (in most cases pre-Merger prices) if the entrant would not find pre-Merger prices profitable. In such a scenario, even if entry is likely, it would not be sufficient to 'defeat' the SLC.

8.4 In this section, we looked at the history of the market to see how frequently, and successfully, entry and expansion has occurred in the past. We then assessed what, if any, barriers to entry and expansion exist. Lastly, we analyse specific entry and expansion plans.

JLA's submission

8.5 JLA said that every commercial laundry distributor can supply commercial laundry services to higher education customers, citing Thain Commercial (a regional Miele distributor) and Laundry Equipment Direct (part of Dishwashers Direct, a Miele approved partner) as examples, which appeared to have recently started targeting the higher education and leisure sectors with cashless payment options and a laundry monitoring system (Aquatec). JLA also submitted that, as providers can set up quickly and they can start off small, JLA may not have identified them all.

8.6 JLA also submitted that: (i) the market is growing; (ii) contracts equivalent to Washstation's revenue are coming for renewal in the next 12 months; and (iii) customers are reacting to the Merger by looking for new providers.

8.7 JLA stated that commercial laundry rivals are expanding into the higher education segment following the Merger. JLA noted evidence from the hearings with Forbes Professional, Maxwell Adam and UPP which it considers to be illustrative of customers seeking new providers. JLA also noted that the CMA's customer research results show that most customers (and 90% of

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[215] For example, if no significant competition were expected to occur in the next two years, which occurs fairly rarely in markets that consist of a single annual contract, as may be the case in some government procurement exercises.
[216] MAGs, paragraph 5.8.10.

Washstation's customers) would be "fairly likely" or "very likely" to consider a provider new to the higher education sector.

8.8 With regard to commercial laundry providers expanding into the higher education segment JLA noted, in particular, not only the likely expansion of Armstrong after its acquisition by Hughes, but also that other providers are actively pursuing plans (Forbes, which has set capital aside) or have set a growth target in the higher education segment (Goodman Sparks). JLA also noted that Whirlpool confirmed to the CMA that it is looking to appoint an additional distributor to specifically supply machines to higher education customers in the UK.

History of entry and expansion

8.9 As explained above, the main provider of managed laundry services to higher education customers under vend share agreements, other than the Parties, is Armstrong.

8.10 Washstation began supplying managed laundry services to higher education customers in 2012 and achieved a market share of around [5-10]% in 2017 Armstrong started supplying these services in 1993 and it had a market share of less than [✂] [0-5]% in 2017.

8.11 In the past, JLA has acquired companies (PHS Laundryserv, 2015; Wilson Electrics, 2016; Acer, 2017) which had higher education customers and, in the case of PHS Laundryserv and Wilson Electrics, offered vend share agreements. In each case, however, higher education customers accounted for less than 5% of these companies' revenues (and a much smaller share of the higher education market overall).

8.12 Therefore, Washstation is the only relevant example of recent, large-scale entry and expansion into the sector of which we are aware.

8.13 The more frequently entry is observed into the relevant market, the more likely we may consider it to occur again. As entry into the supply of managed laundry services to higher education customers under vend share agreements has rarely happened, we question why we would expect it to occur in a timely fashion after the Merger.

JLA's perception of threat of entry - Internal documents

8.14 Of the 533 JLA's and Washstation's internal documents that we reviewed, we found that only a very small number of documents related to entry and expansion.[217] Most of the documents reviewed either referred to competitive interactions between firms as opposed to entry and expansion or they referred to marketing emails. We only found two documents where entry and expansion were mentioned by JLA:

(a) One document in which [✂] contacted JLA to enquire about a possible partnership in the [✂].[218]

(b) One document (2016) where JLA discussed [✂].[219]

8.15 The JLA's internal documents we reviewed do not reflect any threat to JLA's commercial activities in the higher education sector from laundry providers supplying customers in other sectors.

8.16 The history of a lack of meaningful entry and expansion in the supply of managed laundry services to higher education customers under vend share agreements indicates that entry in this sector is difficult or that there are other more profitable opportunities. Therefore, we consider below possible barriers to entry, as well as the potential new entrants identified by JLA and the possible expansion of Armstrong.

Barriers to entry

8.17 JLA submitted that entry into the supply of managed laundry services in the higher education sector is easy and simple. It submitted that entry requires only laundry equipment, payment systems and engineers, that there is little financial risk and that demand is predictable. In its response to the CMA's Phase 1 decision, JLA stated that there are low barriers to entry and expansion and that the threat of this entry or expansion "is itself sufficient to constrain JLA".[220] JLA also submitted that "other providers of commercial laundry services who do not currently supply higher education customers could easily expand into the higher education sector, at little cost"[221].

[217] The review only considered documents related to the threat of entry and expansion as distinct from competitive interactions between JLA and its competitors. Documents discussing a competitor expanding their market share by acquiring a single contract or a small group of contracts were therefore tagged as competitive interactions.
[218] See document JLA internal email discussing a new entrant: [✂]
[219] See JLA budget review discussing the performance of other suppliers of washing machines and managed laundry services: [✂]
[220] Response to Phase 1 Decision, 4 May 2018, paragraph 6.2.
[221] Response to Phase 1 Decision, 4 May 2018, paragraph 6.3.

8.18 We identified a number of factors which, individually or cumulatively, may result in barriers to entry in the provision of managed laundry services to higher education customers. These potential barriers to entry are:

(a) The specific requirements of higher education customers;

(b) The importance customers attribute to reputation and/or experience in the supply of managed laundry services in the higher education sector; and

(c) The lack of opportunity to win customers;

(d) Capacity constraints of some potential providers.

8.19 In this section we assess the extent to which these factors constitute barriers to entry or expansion, both individually and cumulatively.

Specific requirements of higher education customers

8.20 JLA submitted[222] that there is no difference (in terms of the types of machines, the contracts, the service, etc.) between the provision of laundry services in the higher education sector and the provision of laundry services in (for example) the leisure sector, the care home sector, on the hospitality sector. JLA also told us that commercial laundry machines are readily available from different sources and that servicing can be subcontracted. JLA considered that every commercial laundry distributor can supply commercial laundry services to higher education customers.

8.21 We have identified the following factors which may result in barriers to entry:

(a) the need to offer vend share agreements;

(b) access to machines;

(c) the need to offer additional services such as cashless payment systems, online services and refurbishment services.

The need to offer vend share agreements

8.22 JLA submitted that any provider of commercial laundry can offer vend share agreements. JLA submitted that the risks associated with vend share

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[222] See response to the Phase 1 decision.

agreements due to uncertainty in the income from end users are low, since it is straightforward to estimate the income accurately.[223] JLA explained that it could not identify other providers of vend share agreements to higher education customers because providers do not publicise the type of contracts that they offer and some providers start off small such that JLA would not notice them at first.

8.23 Our investigation has found that vend share agreements may have additional costs and risks associated with them. Under vend share agreements, much of the financial and operational risk is borne by the managed laundry provider, not the customer (see paragraphs 6.15 and 6.16). Providers are reliant on the machines installed being used[224] to generate revenue, whereas fixed rental agreements give providers an income irrespective of whether the machines installed are used.

8.24 Third parties were mixed in their opinions on the reliability of estimates of revenue levels, but this appears to be a risk, in particular for less experienced providers in the higher education[225] and in light of the significance of the upfront costs for some of these providers and the expected time required to recover the initial investment[226].

Access and cost of the machines

8.25 In paragraphs 6.28 - 6.31 we discussed the characteristics of machines used in the higher education sector. In particular, we note that they are mostly semi-commercial machines with a capacity of around 9.5kg, which are primarily available from Alliance and Whirlpool:

(a) Alliance told us that it is not looking for additional distribution partners as the company already has wide geographic coverage in the UK, as well as coverage of most sectors. Alliance would redirect potential purchasers of machines to its existing partners. If that party wished to become a

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[223] They state that "as a general rule of thumb, in an academic year most students will run around 25 washing cycles, and any prospective provider can work on that basis knowing the number of beds the accommodation block has and the customer's proposed vend price". See JLA's submission in response to Phase 1 Decision, 9 May 2018, paragraph 6.17

[224] If usage differs from the predicted level, then providers could find themselves locked into a loss-making or marginal contract for the full multi-year term of the agreement.

[225] Armstrong stated that estimates of use and occupancy levels provided in tenders may be unreliable (see Armstrong hearing summary, paragraph 19). Goodman Sparks had fewer concerns and said that the revenues are fairly predictable. They did note, however, that the seasonality of revenue is a problem for their cashflow as an additional cost for them to offer these agreements (see Summary of hearing with Goodman Sparks, paragraph 7);

[226] See paragraph 8.53.

distributor, Alliance would look at whether and how the potential distributor would differentiate itself from its existing partners.[227]

(b) Whirlpool is currently in the process of appointing an additional distributor to supply machines to higher education customers in the UK. Whirlpool indicated that it has had discussions with [✄], and is likely to appoint [✄] and then [✄].[228]

8.26 The investigation indicates that if a provider with a direct relationship with a manufacturer it can be more competitive in its offer to higher education customers, both on price[229] and installation time.[230/231] While a provider may be able to source machines from Alliance and Whirlpool distributors in the UK (eg Goodman Sparks), both JLA and Armstrong require a 6-7 week lead time for the supply of the machines which, in some cases, prevents providers from meeting the deadline set out in the tenders for installation. [232]

The need to offer additional services

8.27 Some third parties[233] submitted that many higher education customers expect additional services alongside managed laundry services. These additional services include, cashless payments, online services (such as app-based machine monitoring) and the refurbishment of laundry rooms.

Cashless payment systems

8.28 JLA stated that over [90-100]% of machines installed in the last two years are cashless. JLA submitted that both the fixed (around £[✄]) and variable (£[✄] per machine) costs of offering a cashless payment system are low and that

[227] Summary of hearing with Alliance, paragraph 19.
[228] Summary of hearing with Whirlpool, paragraph 8.
[229] Alliance stated that they have a list price on which they give discounts to their distributors. Most of the distributors get a [✄]% discount on the retail price. Additional discounts may be applied depending on the volume being purchased. Alliance Hearing Summary, 7 June 2018, paragraph 22
[230] Goodman Sparks explained that it was unable to meet the deadlines for installation set out in a tender because all manufacturers of the machines required 6 to 7 weeks lead time for delivery of machines from the date of order, because the machines had to be imported (there are no UK based manufacturers). Goodman. To the extent that manufacturers are willing to enter into additional distribution agreements, Goodman Sparks indicated that a company would have to buy a large number of machines (eg around the number of machines equivalent to serve ten large contracts). Summary of hearing with Goodman Sparks, paragraph 14.
[231] A distributor may require less lead time for the delivery of the machines, in particular because it tends to have more machines in stock.
[232] Mr Copley also explained that smaller laundry services providers, if they are not distributor, may be not willing to face the risk and difficulties of importing containers of around 80 machines, find storage for the machines and deal with customs.
[233] Summaries of hearings with Armstrong and Goodman; and the CMA’s customer research.

payment systems can be obtained from a number of providers for around £[✄] for each laundry room.

8.29 Third parties' submissions indicate that the costs of cashless systems were not so prohibitive that providers could not afford to offer them.[234] However, while the supply of cashless system may not be, per se, unsurmountable, the cost of a cashless system adds to the other costs of supplying managed laundry services to higher education systems.

Online monitoring system

8.30 JLA stated that the development cost of their mobile app was £[✄], with ongoing costs of £[✄] per year for hosting costs, and £[✄] per site for hardware. JLA noted that Washstation was able to offer online services through its website and did not offer a dedicated app.

8.31 This may pose a barrier to entry or expansion as it adds to the sunk costs of providing such services. A third party also mentioned that it was difficult to have access to an existing online service given the arrangements between the developer of the online application and the incumbent provider of managed laundry services.[235]

8.32 Moreover, a customer may be reluctant to use a cashless payment or online monitoring system that has not been previously widely used by other higher education customers, and without knowing whether it would be well received by students. The effectiveness of both a new online or cashless payment system needs to be tested and satisfy customers requirements.

Refurbishment of laundry rooms

8.33 As regards refurbishment, JLA submitted that the costs of refurbishing laundry rooms are very low and cannot be considered a barrier to entry. JLA

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[234] Goodman Sparks 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 Goodman Sparks uses one reader per stack (i.e. a washing machine and a tumble dryer) or per machine. A card reader costs £[✄] and no further infrastructure is involved (see Summary of hearing with Goodman Sparks, paragraph 15). Alliance does not sell card systems yet, however, it is about to launch its own app designed to accept payments via mobile phone (see Summary of hearing with Alliance, paragraph 11). Whirlpool said that customers go to third parties to develop and install suitable payment infrastructure (see Summary of hearing with Whirlpool, paragraph 6).

[235] Goodman Sparks stated that it approached the developers of LaundryView a few years ago, but was declined (see Summary of hearing with Goodman Sparks, paragraph 16). JLA said that their app was developed by Greenwald, an US-based third party, and that the [✄]. Response to Issues Statement, 25 May 2018, para 5.20.

estimated that the cost of installation and refurbishment for a site with 8 machines is £[✂] (excluding the cost of machines).

8.34 Third parties indicated that refurbishment is a standard part of higher education tenders. Armstrong stated that refurbishment has become “mainstream” in higher education, is a sunk cost, and that can be considerable.[236] Goodman Sparks stated that it is “[v]ery much the norm now that a full refurbishment is carried out by the laundry provider”. Forbes Rental stated that the need to acquire the capital required to refurbish rooms could act as a constraint for potential entrants.[237]

8.35 Overall the need to offer the additional services mentioned above, cumulatively represent non-insignificant sunk costs. Moreover, they are important and it may prove difficult to satisfy the expectations of the customers in relation to these services, as shown by the weight given to these services in some tenders and the feedback received by providers in recent tenders.[238]

Lack of opportunity to acquire customers

8.36 JLA submitted that there are sufficient contracts coming up for renewal on a regular basis (at least £[✂] million in the next two years[239]) to support a new entrant, and that there is a high rate of growth in student accommodation in general with the market expected to grow by about £[✂] million per year.[240] JLA also submitted that “these opportunities are easily visible and accessible to existing and potential provider as the higher education segment is very transparent”. JLA also stated that the use of public tendering platforms by customers allowed anybody to identify opportunities within the sector.

8.37 The long-term nature of many of the agreements may be a barrier to entry and expansion since customers cannot easily switch provider,[241] and at any given time only a proportion of customers will be contestable (given the average 8-year length of JLA’s customers’ contracts, a roughly quarter of

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[236] Summary of hearing with Armstrong, paragraph 27.
[237] Summary of hearing with Forbes Rentals, paragraph 7.
[238] Such additional services can be given substantial weight in tender specifications and the evaluation scores given to providers do vary widely, indicating that these services are difficult for some providers to supply. For example, the University of Nottingham weights the “implementation” portion of its tender at [✂]%, and it relates mostly to the refurbishment (also the proposed installation timetable). Armstrong scored [✂] for this criterion, compared to JLA’s [✂]. Armstrong also scored below JLA for its online services and app offering, indicating that this service is difficult for some providers to supply.
[239] JLA estimates that in the next two years contracts currently belonging to JLA and Washstation amounting to £[✂] million in annual revenue will come up for renewal.
[240] Based on a Knight Frank report on the student accommodation sector, Phase 1 decision, paragraph 146. We note that growth in the sector is consistent with figures reported in Figure 1 of the Competitive Effects section.
[241] JLA’s contracts typically do not include break clauses.

customers will be able to tender during the 2-year period following the Merger).

8.38 JLA also knows the status of the large majority of the contracts in the higher education market as it holds almost all of these contracts. It is therefore likely to know when most existing contracts are to come up for renewal, knowledge which is likely to be difficult and costly for other providers to replicate. JLA's practice of [✂], could also prevent some of those contracts being put out to formal tender.

8.39 All of the above factors could detract from the transparency of opportunities available to competitors, particularly those looking to enter the higher education market. It could also increase both the costs of entry and the likelihood of successful contract wins, even in a growing market. This is reflected in a third party comment describing the industry as being opaque, with opportunities being difficult to identify; the same third party described the supply of managed laundry services to higher education customers as a 'closed shop'.[242]

8.40 Finally, the fact that competitors appear not to have competed for private-sector customers[243] is also indicative that providers that are not the incumbent or have not established strong relationships in the sector (which requires time and resources) may struggle to become aware of contract opportunities.[244] This is supported by the fact that Armstrong has not bid for private student accommodation customers. We note that significant growth in the market is expected to come from private student accommodation customers.

Experience and reputation in the higher education sector

8.41 In some of the tender documents provided by JLA, the rating for some criteria depends on the provider's track record in the higher education sector.[245]

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[242] Photo-Me noted that it appointed [✂], a business management consultant, to explore whether higher education customers were interested in its laundry services offering. However, Photo-Me indicated that [✂] did not have much success because they felt the industry to be a "closed shop (see Summary of hearing with Photo-Me, paragraph 16); ESPO stated that no university had ever used their framework to make a tender for laundry services or equipment (see Summary of hearing with ESPO, paragraph 7).

[243] JLA bid for [✂] private accommodation providers and private accommodation management customers in 2018, whereas Armstrong bid for [✂].

[244] JLA stated during main party hearing: "*If you think of the market split down, broadly, between the universities themselves, on the public side, and the private operators, then, not an exclusive rule but, typically, the public sector, the universities will go through a tender route and an open tender, whereas the private operators and private landlords sometimes go through an open tender but, more likely, go through a commercial negotiation and they will choose suppliers on that basis. They will contact suppliers directly. There might be an existing relationship"*

[245] For example, the invitation to tender issued by [✂] lists one of the criteria on which bidders will be assessed as "Organisation and staffing", requesting "Please provide details of your knowledge and experience of providing this type of service in the Higher Education sector". This criterion alone is weighted 16% in the tender

Previous experience in the higher education sector may also be an asset in demonstrating that a provider is able to meet some of the requirements of higher education customers such as short installation windows, multiple laundry rooms, and online solutions.

8.42 The CMA's customer research found that a provider with a strong track record in providing laundry services was considered by all respondents to be an important or essential factor in choosing their laundry provider. However, some respondents indicated that it was not important to them that their provider had experience in supplying higher education customers specifically (8 out of 59 rated this as "not important"), and there was broad willingness among respondents to consider a provider who was new to the sector (only 7 out of 59 stated they were fairly or very unlikely to, or would not, consider such a provider). The responses to the follow-up open question suggest that many respondents would not want to limit their options by requiring HE experience.

8.43 However, that the second most common response to the unprompted question about the most important choice factors, was 'previous good experience of the provider' (mentioned by 17 out of 59 respondents). This indicates that some respondents may be more likely to choose a provider that they have used before.

8.44 We also note that, in the three years preceding the Merger, no contracts for the supply of managed laundry services to higher education customers on vend share agreements were awarded to players not already active in the supply these specific services.

8.45 Finally, those respondents who did not go out to formal tender and extend the contract with their existing provider without considering alternatives tended to consider providers with higher education experience. Only one respondent named an alternative provider outside the higher education sector that it had considered, indicating that while respondents may be prepared to consider providers without higher education experience, most have not done so in the past.[246]

[246] Apart from JLA, Washstation, Armstrong and Goodman Sparks, other providers considered (for respondents who got quotes directly these are providers they had either considered getting quotes from or they approached and for respondents who took an alternative procurement route these are providers they said they had considered) were: PHS, Wilson Electrics, Coin and Laundry Serve. Q16c, Q30, Q31 Customer research. JLA acquired Laundry Serve from PHS, as well as separately acquiring Wilson Electrics. Both providers served HE customers. Coin was the only provider outside the HE sector; it was mentioned by one respondent who got quotes directly.

8.46 Overall, the evidence appears to indicate that an established reputation as a provider of laundry services is an important factor, while experience in the supply managed laundry services to higher education customers appears to be a secondary factor, but still relevant to some customers.

Capacity constraints

8.47 If there are capacity constraints in a market, firms may be prevented from expanding, as it may be difficult to serve new customers without incurring significant costs. Capacity constraints may limit the speed with which a firm can expand and so the competitive constraint it can pose to JLA.

8.48 While the investigation appears to indicate that there is a large population of engineers who frequently switch between businesses[247] some third parties noted that they would require more engineers to serve some regions (eg Armstrong needs more engineers to serve the South West), which can be difficult in some locations.[248]

8.49 Some third parties also identified the ability to install new machines within the deadline required by the higher education customers as a constraint. In particular, third parties stated that the number of contracts they could take on in a single year was limited by their ability to install equipment in the summer holidays which is necessary to avoid disruption to students.[249]

Barriers to de novo entry

8.50 Entirely new entrants to the managed laundry services market, as opposed to expansion into the higher education sector by providers already active in other

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[247] When asked about whether there is any shortage of skilled engineers, Armstrong responded that this depends on the location and on the skill level. However, it is not really an issue to find new engineers. The only difficulty is that with a salary of around £[✂], Armstrong cannot afford to pay the commission levels of JLA/Washstation (Armstrong hearing summary, paragraph 23).

Goodman Sparks has 10 engineers for all its business based in South Yorkshire and Manchester which limits its reach. For anything further than Birmingham, Goodman Sparks would need to employ third party engineers from outside and Goodman Sparks is not keen on this due to the limited margin in this sector. Goodman Sparks uses its engineers for all types of customers (see Summary of hearing with Goodman Sparks, paragraph 2). Goodman Sparks stated that they aimed to [✂], and that they aim to stay within their capacity when bidding for tenders.

[249] Goodman Sparks said, “the large scale of projects which have to be implemented during a short window during the summer holiday period restricts the extent of projects that can be carried out in any one year due to resource limitations”. Armstrong also explained that university tenders for managed laundry services are usually concentrated at the beginning of the year, so that the machines can be installed in Summer before the new semester starts. This puts pressure on the available resources to install new equipment. Armstrong estimated that it will take Armstrong 5-10 years to fill the gap of Washstation (see Summary of hearing with Armstrong, paragraph 22).

sectors, will face additional costs in establishing a business initially. JLA estimated that a new entrant to the managed laundry services industry would face initial setup costs of £[✄] in its first year, and ongoing overheads of £[✄] per year.[250] These costs are set out in Figure 16:

Figure 16: Initial setup and ongoing overheads for a new contract

Item	Year 1	Year 2 onwards	Description
Business establishment	£[✄]	£[✄]	Setting up the business, IT equipment, office furniture/fittings etc.
Website	£[✄]	£[✄]	Website with card payment system.
Head office	£[✄]	£[✄]	Office manager and a part-time bookkeeper.
Other operating costs	£[✄]	£[✄]	Warehouse storage, office rent and related costs, telephone/IT, insurance, out of hours phone service and tender preparation costs.
Total	£[✄]	£[✄]	

Source: JLA

8.51 JLA provided a worked example of the profits and costs directly associated with a single laundry room (with 8 machines – washers and dryers) provided on a vend share basis. In this example, the installation and refurbishment costs lead to the site producing a loss of £[✄] in the first year and a profit of £[✄] in following years. A comparison to the relevant costs in the Washstation financial model from 2012 indicates that JLA's estimates are reasonable.

Figure 17: Example of profitability of a laundry room

Item	Year 1	Year 2 onwards	Explanation
Revenue before commission	£[✄]	£[✄]	[✄]
Revenue after commission	£[✄]	£[✄]	[✄]
Machine	£[✄]	£[✄]	[✄]
Installation and décor	£[✄]	£[✄]	[✄]
Servicing	£[✄]	£[✄]	[✄]
Parts	£[✄]	£[✄]	[✄]
Cards	£[✄]	£[✄]	[✄]
Payment services	£[✄]	£[✄]	[✄]
Total cost	£[✄]	£[✄]	
Total profit	£[✄]	£[✄]	

Source: JLA

[250] We have also analysed the costs incurred in establishing the Washstation business. When compared with JLA's estimates, this analysis implies that the estimates provided by JLA are reasonable.

8.52 Based on these fixed overhead costs, an entrant would need to operate 23 sites of this size to be profitable over the 8-year lifespan of a typical contract.[251]

8.53 Some third parties identified the upfront cost required to enter into the higher education sector and the long time required to have a return on the initial investment as a significant barrier.[252]

8.54 The costs identified above do not include costs associated with marketing, prospecting for new opportunities and preparing an offer, which may be significant specially for a new entrant. A new entrant is also likely to factor in its assessment of costs, the potential win rates, which can be low in the first years.

Provisional views on barriers to entry and expansion

8.55 In light of the evidence discussed above, we consider that a new provider may operate under a potential cost disadvantage by purchasing machines from a distributor (instead of an OEM) or require time to reach sufficient scale to gain its own distributorship. The cumulative cost of offering a cashless payment system, online services and the refurbishment services required by many customers appears to limit entry by firms who do not have suitable financial backing, especially when factoring in the risk associated with the vend share agreement model.

8.56 Reputation and experience are also important factors for higher education customers. Given the important nature of laundry services to the student experience, higher education customers are keen on their providers having a strong track record, which creates difficulties for new entrants that lack either experience or a reputation in providing managed laundry services to higher education customers.

42. Moreover, providers without an established presence in the sector may find it difficult to identify opportunities that are not publicly tendered (which account

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[251] This is based on the total amounts of fixed costs and profits from sites over, summed across the 8-year period.
[252] Maxwell Adam said that the two reasons why it is not interested in supplying higher education customers is that the provider 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 Maxwell Adams considers that this makes it 'impossible' for it to enter into this market (see Summary of hearing with Maxwell Adam, paragraph 6). Forbes Rentals said that the capital required to purchase machines and refurbish laundrettes could act as a constraint for potential entrants, particularly when combined with high commission levels in vend share agreements. By way of example, Forbes Rentals said that for a university tender with ten rooms and 100 machines, it would have to pay upfront £[✂] per machine and £7,000-£10,000 for room refurbishment (see Summary of hearing with Forbes Rentals, paragraph 7).

for a significant proportion of all potential opportunities). It can be difficult and costly for other providers, for example, to replicate JLA's established knowledge of the market, including when most existing contracts come up for renewal. Combined with the long-term nature of managed laundry contracts, the lack of transparency is likely to make initial entry more difficult, even for firms who are well-established in providing laundry services to other sectors. Therefore, the lack of transparency around opportunities available to competitors is likely to increase the costs of entry and reduce the likelihood of successfully winning contracts, even in a growing market.

8.57 Collectively these barriers may be material, costly to overcome and may deter both entry and expansion by existing providers. We cannot, in principle, exclude the possibility that these difficulties might be overcome, thereby allowing successful entry to occur. However, given the lack of history of entry in this sector, we consider that only a proactive and determined provider, with the necessary financial backing, may be likely to overcome these difficulties in a sufficient manner and in a timely fashion.

8.58 We therefore assessed whether any third parties have plans to enter and expand that are timely, likely and sufficient to countervail any the SLC resulting from the Merger.

Evidence on entry and expansion post-Merger

8.59 Given our findings on barriers to entry and the history of entry and expansion in this sector, we have gone on to assess individual entry or expansion plans. Due to the length of time that has elapsed since the Merger, we also assessed whether Armstrong has developed plans and has taken steps to enter or expand since the Merger. This can give us an indication on whether other providers are likely to enter or expand in a sufficient and timely manner.

8.60 While this analysis will not necessarily be informative of what the performance of Armstrong would have looked like absent the Merger, we can use our assessment of its performance post-Merger to assess whether it could in the future countervail the effects of the Merger.

Evidence on Armstrong's expansion post-Merger

8.61 We focused our analysis on Armstrong, given that it was the Parties' main competitor (other than each of the Parties) before the Merger and as such may have been better placed than other competitors to exert a competitive constraint post-Merger. Additionally, in January 2018, Armstrong was itself acquired by Hughes, an electrical products retailer with operations in the Midlands and East of England. Hughes is a family owned and run business and generates an annual turnover of circa £110 million. Hughes told us that it had only one customer in the higher education sector before the acquisition of Armstrong.

8.62 We assessed JLA's and Armstrong's submissions and performance in recent contracts opportunities, including the analysis of recent tender data.

JLA's submissions

8.63 JLA submitted that the CMA should consider the value of contracts in the higher education segment lost by JLA to Armstrong in the six months since Armstrong merged with Hughes (i.e. since January 2018) which amount to around £[✂].[253] JLA noted that this exceeded the value of contracts (£[✂]) that Washstation won from JLA in the period just prior the Merger in 2017 (January 2017 to May 2017) and that although in 2015 and 2016, Washstation won larger amounts from JLA in terms of value, Washstation's activity seems to have peaked in 2015, after which its shares of new contracts diminished.

8.64 JLA also submitted that Armstrong has recently won two new customers with cashless payment solutions and that, following its acquisition by Hughes, Armstrong is now a stronger competitor than Washstation was, with many more engineers and strong financial backing.

Armstrong's submissions

8.65 Armstrong told us that it saw the acquisition of Washstation by JLA as an opportunity to expand in the higher education sector. In its view, service levels have dropped at JLA after the Merger, and this meant that price, which is typically an important parameter in tenders, has reduced in relative importance for customers.

8.66 Armstrong submitted that since the Merger it is bidding for as much higher education work as possible. [✂].

[253] [✂].

Armstrong's performance in recent contract opportunities post-Merger

Number of bids submitted

8.67 Figure 18 shows how many tenders and negotiations Armstrong and JLA participated in between 31st January 2018[254] and July 2018. This data indicates that Armstrong submitted bids for 13 customers during this period, which only represents [✂].[255] JLA participated to a higher number of tenders and negotiations, losing 4 contracts and winning or retaining most of the contracts for which it bid.

Figure 18: JLA and Armstrongn participation in tenders/negotiations, 2018

	JLA customers)	*Hughes/Armstrong (customers)*
Total	[✂]	[✂]
New business won	[✂]	[✂]
Contracts retained	[✂]	[✂]
Contracts lost	[✂]	[✂]
Waiting for decision	[✂]	[✂]

Source: JLA data JLA activity 2018, Hughes/Armstrong CMA letter 12 July 2018.
*Retained contracts include rolled-over (4 customers) and renegotiated contracts (48 customers).

8.68 In addition to the statistics shown in Figure 18, information on these contract opportunities shows that:

(a) JLA was involved in tenders and negotiations with [✂] customers for which Armstrong did not bid.[256]

(b) JLA competed with Armstrong in [✂] tenders for universities and it lost 3 customers ([✂) to Armstrong.

(c) Armstrong bid in [✂] tenders/negotiations and it lost 5 bids of which 4 were lost to [✂] ([✂]) and 1 was lost to [✂] (see paragraph 8.112) ([✂]).[257]

(d) Armstrong did not bid for any private customers in 2018 (e.g. students accommodation), while the majority of customers ([✂ out of [✂) for which JLA bid for were private customers.

[254] The date when Armstrong was taken over by Hughes,
[255] This includes all the opportunities that JLA and Armstrong participated in since the beginning of 2018.
[256] JLA bid for a total of [✂] customers. In [✂] instances, it bid against Armstrong only. In [✂] instances it bid against Washstation (under the HSM) only. In [✂], it bid against both Armstrong and Washstation (under the HSM).
[257] Of the remaining [✂] tenders/negotiations which Armstrong placed in 2018, [✂] were won ([✂]) and 2 are still waiting for a decision.

Armstrong wins in 2018

8.69 From the beginning of 2018, Armstrong has won a total of [✂] customers, accounting for a total of £[✂]. Armstrong won [✂] of these customers from JLA and the value of these contracts is around £[✂]. Figure 19 below shows details of the level of commission and of the payment methods offered by Armstrong in each of these contracts, comparing it with the level of commission previously offered by JLA to these customers (when known).

Figure 19: Contracts won by Armstrong since January 2018†

Customer name	*Date*	*Won from*	*Revenues (£)*	*Commission rate Armstrong*	*Commission rate JLA*	*Payment method Armstrong*	*Payment method JLA*
[✂]	2018	[✂]	[✂]	[✂]	[✂]	Card	Coins
[✂]	2018	[✂]	[✂]	[✂]	[✂]	Coins	Coins
[✂]	2018	[✂]	[✂]	[✂]	[✂]	n/a	Card
[✂]	2018	[✂]	[✂]	[✂]	n/a	Coins/Card	n/a
[✂]	2018	[✂]	[✂]	[✂]	n/a	Coins	n/a
[✂]	2018	[✂]	[✂]	[✂]	n/a	Coins	n/a

Source: Armstrong data on active contracts in the higher education sector and JLA data on contracts in the higher education sector (2007-2018)
† Between 2015-18, JLA lost the following customers to Armstrong: [✂]

8.70 In order to assess whether this amounts to a similar constraint to that which Washstation imposed on JLA, we have compared this to the average value of Washstation's contract wins over 6 months periods prior Merger in the years between 2013 to 2017. This allowed us to compare Armstrong's recent wins against Washstation's performance prior to the Merger.

Figure 20: Value of new contracts won by Hughes/Armstrong (Jan-July 2018) and year average†of new contracts won by Washstation (2013-2017)

Total new contracts	*Hughes/Armstrong*	*Washstation*
Jan-July 2018	[✂]	
Jan-May *2017*		[✂]
6 month Average 2016		[✂]
Total won in 2016		[✂]
6 month Average 2015		[✂]
Total won in 2015		[✂]
6 month Average 2014		[✂]
Total won in 2014		[✂]
6 month Average 2013		[✂]
Total won in 2013		[✂]
Only contracts won from JLA	*Hughes/Armstrong*	*Washstation*
Jan-July 2018	[✂]	
Jan - May *2017*		[✂]
6 month Average 2016		[✂]
Total won in 2016		[✂]
6 month Average 2015		[✂]
Total won in 2015		[✂]

Source: CMA analysis of Armstrong's contracts won in 2018 and Washstation's active contracts in 2017 (Annex 10.1 of S109)
†the year average is a 6 months average calculated by dividing the total value of new contracts won by Washstation by 2.

8.71 The data in Figure 20 shows that, although Armstrong has won more contracts from JLA than Washstation did in 2017, it has won fewer than Washstation in the two preceding years. As mentioned above in paragraph 5.20, the performance of Washstation in 2017 may have been affected by the Merger.

8.72 Similarly, the total value of contracts won by Armstrong is lower than the 6-month average for Washstation in all years other than 2013. Since the contract mix varies over time, which has a significant effect on revenue, we consider that the data indicates that Armstrong is not winning as much higher education business as Washstation did pre-Merger.

Armstrong losses in 2018

8.73 Armstrong lost 5 bids in 2018, of which 4 were lost to [✂] ([✂]) and 1 was lost to [✂] ([✂]). We received tender evaluation documents for three of these lost tenders. These allow us to analyse Armstrong's relative performance on these contracts. The tender evaluations show:

(a) For its largest customers ([✂]), Armstrong's performance was weaker than JLA's. Armstrong offered a slightly higher rate of commission than JLA ([✂]% vs [✂]%), but received poorer ratings on quality criteria. In particular, [✂].

(b) For the University of [✂], Armstrong achieved a significantly lower score than JLA [✂]. JLA offered a [✂]% commission on [✂], whereas Armstrong was only willing to offer [✂]%. For revenue [✂], JLA offered [✂]% and Armstrong did not offer any additional commission. The tender documents indicated that [✂]:

(i) JLA provided [✂],

(ii) JLA provided [✂],

(iii) With regard to refurbishment plans, [✂].

(c) For the University of [✂], Goodman Sparks submitted a bid. Armstrong said that it would supply the equipment to Goodman Sparks if Goodman Sparks were to win this tender (Armstrong did not bid). Out of 165 marks, JLA scored [✂] and Goodman Sparks [✂]. In particular, JLA offered a better commission level. The quality of Goodman Sparks' offer had improved since it bid in 2011, but it still trailed JLA in some areas.

8.74 In addition, Armstrong also bid and lost a contract with [✂], a former Washstation's customer. [✂] told us that it received only two bids, one from

[✂] and one from [✂], and that JLA did not submit a bid. [✂]'s and [✂]'s bids were similar in terms of commission (around [✂]%), service level (same day repairs) and number of machines; however, the contract was finally awarded to [✂] as [✂] was not able to [✂] as requested by [✂].

8.75 Therefore, although Armstrong appears to have been competitive on commission rates in, it appears in several bids to have been uncompetitive on quality and service parameters.

Contracts Armstrong decided not to bid for

8.76 Armstrong considered putting bids in for [✂] and [✂] Universities but declined to bid. As mentioned above Armstrong did not bid for any private customers in 2018 (e.g. students accommodation).

8.77 Armstrong explained that it didn't bid for [✂] and [✂] Universities due to three factors:

(a) Lack of current service coverage, particularly in the South West.

(b) Installation timescales which it considered it was unable to meet. Machines need to be ordered with a 10-week lead time and the tender did not take account of this.

(c) Highly restrictive tender documentation. For example, [✂] wanted 3 similar higher education reference sites in South West England although this was subsequently amended.

Provisional view on evidence on Armstrong's expansion post-Merger

8.78 The evidence indicates that Armstrong is submitting bids in a higher number of cases and has won some contracts from JLA. However, since the beginning of 2018, Armstrong lost its largest customer ([✂]), which accounted for around £[✂] ([✂]% of Armstrong's total revenues from higher education customers in 2017).[258] Although Armstrong won 6 customers they only accounted for around £[✂], so Armstrong's net revenue decreased by around £[✂].

8.79 Armstrong does not appear to have been aware of a significant number of potential bidding opportunities, particularly to private providers, and did not submit an offer to some it was aware of, citing limitations in its geographic

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[258] Armstrong reported revenues for UCL being £186,000 in 2017. Armstrong's total revenues from higher education customers in 2017 were £[✂].

coverage and ability to install machines sufficiently quickly. Where Armstrong was unsuccessful in bids, the feedback from customers indicates that Armstrong remains a weak constraint on the merged entity. Additionally, we note that the loss of [✂], as Armstrong's largest customer, may also have a negative impact on Armstrong's reputation.

Future entry and expansion plans

8.80 In this section we examine the potential for entry/expansion in the UK in a time horizon of approximately two years. We have identified and discussed the possible candidates for entry and expansion. We set out below our views on the likelihood, timeliness and sufficiency of these candidates, with particular focus on the possible expansion of Armstrong.

JLA's submission

8.81 With regard to commercial laundry providers expanding into the higher education segment JLA notes, in particular, not only the likely expansion of Armstrong after its acquisition by Hughes, but it also notes that other providers are actively pursuing plans (Forbes, which has set capital aside) or have set a growth target in the higher education segment (Goodman Sparks). JLA also notes that Whirlpool confirmed to the CMA that it is looking to appoint an additional distributor to specifically supply machines to higher education customers in the UK. See also in paragraph 8.5, the examples identified by JLA of companies that appear to have recently started targeting the higher education and leisure sectors.[259]

Future expansion of Hughes/Armstrong

8.82 In addition to the evidence on the competitive constraint imposed by Armstrong post-Merger and after its acquisition by Hughes, we assessed the timeliness, likelihood, and sufficiency of Armstrong's expansion, based on the following evidence on:

(a) JLA's submissions;

(b) Submissions from Hughes and Armstrong;

[259] In our investigation, we talked with these companies about their business plans, with the exception of Dishwasher Direct, which we were unable to contact.

(c) the contracts which Armstrong has bid for recently and the feedback it has received;

(d) Armstrong's current offer and expected changes of its offer; and

(e) Armstrong's plans for the higher education sector.

8.83 The timeliness and likelihood of Armstrong's expansion are closely linked in this case. As such, our assessment of both is based on the same evidence and it is appropriate to consider them together.

JLA submission

8.84 JLA submitted that the acquisition of Armstrong by Hughes will allow Armstrong to replace the competitive constraint that Washstation imposed by providing Armstrong with greater financial resources, a wider geographical scope, and improving the "commercial nous" of the business. In particular, JLA submitted that: (i) Armstrong is now a considerably better-equipped competitor than Washstation was either before or at the time of the Merger, with its far larger and nationwide network of engineers, stronger financial backing, and a more resilient, diversified business model covering all segments of commercial laundry; (ii) Armstrong has won [✂] contracts from JLA in the higher education sector that JLA is aware of, since its acquisition by Hughes in January 2018; (iii) based on the summary of its hearing with the CMA, Armstrong plans "to compete for every higher education opportunity that it is able to handle geographically", which JLA considers to be the vast majority of the UK.

Armstrong's and Hughes's submissions

8.85 Hughes told us it has a 5-year 'plan' to expand in the higher education sector (although no detailed business and financial plan has been prepared to that effect). Hughes/Armstrong is planning on bidding for every higher education opportunity it is able to handle geographically, including private higher education customers and large universities, but noted that these are harder to win.

8.86 Hughes explained that the 5-year plan involves changing Armstrong's infrastructure and offer (see further details below). Hughes said that it has not allocated funds in its budget and that it does not have a detailed investment plan to pursue the expansion and improvement described above. Instead, it will make investments as required, depending on the business won by Armstrong.

8.87 Hughes produced on 9 July 2018, for the purpose of submitting to the CMA, a non-contemporaneous note summarising the discussion between Hughes' management at a meeting on 15 September 2017 regarding the rationale for the acquisition of Armstrong and Hughes' business plan for Armstrong (iethis note was produced 9 months after this meeting). This note identifies higher education (universities/colleges) as one of the key areas for growth in the Armstrong business and identified areas of improvement that would be required. The note states that Hughes was prepared to invest into the higher education sector if it was successful in winning new business.

8.88 Armstrong said that it saw the acquisition of Washstation by JLA as an opportunity to grow in the higher education sector.

8.89 However, we note that, when heard separately, Armstrong identified several difficulties it might encounter in its plans to expand into higher education, whereas Hughes seemed more optimistic.

Contracts which Armstrong has bid for recently and feedback it has received

8.90 As explained above, recent tender evidence shows that:

(a) Armstrong has not won any contracts larger than £25,000 recently and, for those that it has bid on, it has received weaker student experience and quality/ service scores compared to other providers (see paragraph 8.73-8.74);

(b) Armstrong lost one of its biggest customers - [✂]. The [✂] represents [✂]% of Armstrong's current revenue.

(c) Armstrong does not currently supply any private accommodation customers and did not bid for any such customers in 2018. Over [✂] of Washstation's customers were private accommodations (private accommodations vs [✂] universities), accounting for around [40-50]% of its total revenues.

(d) Limitations in its geographic reach and ability to install machines sufficiently quickly prevented Armstrong from submitting bids for 2 contracts that it was aware of (the University Exeter and the University of Manchester). Additionally, we note that in 2018 JLA submitted an offer for and won [✂] contracts from higher education institutions and [✂] from private providers (including both tender and direct negotiations) which Armstrong appears to have been unaware of.

8.91 In our view, winning contracts, not only bidding for them, is an important aspect of competition in terms of Hughes' continued investment in the higher education sector and Armstrong's ability to win further contracts. Although Armstrong is bidding for more contracts, its limited success to date, in particular with regard to high value contracts, taken together with the loss of its largest customer, and the fact that it has not bid for private higher education customers, raises significant doubts over whether Armstrong is likely to have the ability to expand in a timely manner and thus impose a sufficient constraint on the merged entity.

Armstrong's current offer and expected changes of its offer

8.92 Armstrong stated that it would not be profitable for it to provide paybacks of 60-70% of turnover. It would therefore not be worthwhile competing for higher education customers against JLA and Washstation at these levels of commission.[260] We note that nearly [20-30]% of Washstation contracts had a relatively high commission level of above [✄]%. As such, Armstrong would be unlikely to compete for these contracts, which may in turn limit its expansion into the higher education sector.

8.93 Hughes told the CMA that it intends to improve the payment systems Armstrong has been able to offer, improve Armstrong's apps, and implement an on-call phone service support system for students. Armstrong's lower scores in its recent tenders illustrate the importance of these improvements of Armstrong's offer and that Armstrong's intentions to develop these aspects of its service was not sufficient assurance to customers, absent concrete steps to that effect (see paragraphs 8.73-8.74] of the assessment of the competitive effects). Furthermore, our customer research and evidence from third party hearings indicates that there is a perception that Armstrong is less technically proficient than JLA and Washstation. Armstrong will need to overcome this perception. This evidence leads us to conclude that it is unlikely that many customers will award Armstrong contracts before these improvements are implemented and demonstrated by Armstrong.

8.94 With regard to its geographic coverage, Armstrong has indicated that it may continue to have weak coverage in parts of the South West and West Wales. Hughes indicated that it intends to fill in gaps in coverage using its network of local service partners. The intention to fill in gaps in coverage using local service partners has not yet been tested by Armstrong.

8.95 We note the Armstrong employs around 40 engineers who cover commercial laundry (ie not exclusive to Higher Education sector) and the number of

[260] Summary of hearing with Armstrong, paragraph 11.

engineers required for national coverage would depend on many factors, including on the service model adopted).

Armstrong's future plans for the higher education sector

8.96 As noted above, although Hughes indicated that it proposes to expand Armstrong's higher education business, we understand that Hughes does not have a detailed investment plan for expansion and that it has not allocated specific funds for this in its budget.

8.97 Furthermore, Hughes has not made a financial commitment to expansion but has indicated that it will make investments as required, depending on how successful Armstrong is in winning business. In particular, we would expect Hughes to have already made the necessary investments or allocated the necessary budget - including to improve its offer in line with the feedback received in some recent tenders - if it were likely to expand in a sufficient and timely manner.[261]

8.98 Finally, the managing director of Armstrong, beat its hearing with the CMA, estimated that it will take Armstrong 5-10 years to fill the gap of Washstation. He also explained that besides the planned increase in its geographical scope, Armstrong's offering in terms of service level and commission levels was expected to remain unchanged.

8.99 In the absence of a concrete, articulated and credible plan, it is difficult to have confidence that Hughes' (and Armstrong's) aspirations in respect of the higher education sector will be realised in the foreseeable future.

Provisional view on Armstrong expansion

8.100 On the basis of the evidence set out above, while Armstrong has plans to expand its geographic coverage and it now has access to greater financial resources, the evidence raises significant doubts about Hughes' ability and commitment to expand Armstrong's business in the higher education sector and the credibility of its 'plan'. In particular, Armstrong expressed some doubts about its ability to expand into the higher education sector and highlighted the barriers it will likely face. This is supported by the fact that, in the last 6 months, Armstrong has not won any large higher education contracts or any private higher education contracts. Furthermore, even after its acquisition by Hughes, Armstrong received lower scores than other

[261] We also note that meeting note mentioned above states '[✂]'.

participants in some of its recent tenders and lost its largest customer mainly on the basis of its low scoring in respect of student experience.

8.101 Hughes does not appear to have formulated concrete plans for Armstrong's expansion. In addition, Hughes told us that its financial commitment to expansion in the higher education sector was dependent on whether Armstrong would be successful in winning business.[262]

8.102 Taking the evidence in the round, our provisional view is that, even if Armstrong may expand in the future, it is not likely that Armstrong would achieve a sufficient scale in a timely manner to countervail the SLC resulting from the Merger.

Expansion plans – Photo-Me

8.103 Photo-Me said that it recently launched a new product, Revolution laundrette, in the market for the provision of laundry services. Revolution is a 24/7 outdoor self-service launderette that is designed to sit in car parks, convenience stores, supermarkets and petrol station forecourts. Revolution launderettes are equipped with 8kg and 18kg washing machines, a built-in hypoallergenic washing liquid pump and a vented dryer. It did not indicate that its entry into laundry services, or into the higher education sector, was triggered by the Merger.

8.104 Photo-Me currently has one customer in the higher education sector ([✄]). This customer approached Photo-Me directly, as it was dissatisfied with the level of service provided by its current provider of managed laundry services.[263] [✄]. Photo-Me said that it operates a revenue-share model in supermarkets and on petrol forecourts. This option was not offered to [✄] as it wanted to set the vend-price of the laundry service and Photo-Me needed to achieve a certain amount of revenue to make a revenue-share model viable. However, Photo-Me indicated that it would be willing to offer managed laundry services based on a revenue-share model, provided that this was commercially feasible.[264]

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[262] See the note submitted by Hughes summarising the discussion between Hughes' management at a meeting on 15 September 2017 regarding the rationale for the acquisition of Armstrong and Hughes' business plan for Armstrong.
[263] Summary of hearing with Photo-Me, paragraph 7.
[264] Summary of hearing with Photo-Me, paragraph 10.

8.105 Photo-Me said that it does not currently tender for the provision of managed laundry services to higher education customers, as its alternative offering does not lend itself to tenders which have prescriptive requirements,[265] and the preference of these customers for a revenue sharing model.[266] Photo-Me noted that [✂], the length of contracts with the incumbent provider has prevented higher education entities from contracting with Photo-Me.[267] As mentioned above in paragraph 8.39, Photo-Me felt the higher education sector to be a "closed shop".

8.106 Photo-Me is planning to expand its laundry services business (in general) in the UK and has an installation target of [✂] machines per year.[268] However, Photo-Me is focusing on the provision of its laundry services to [other customers than higher education customers] [✂]. Photo-Me is targeting the installation of [✂] machines within the higher education sector within the period 2018/2019.[269] This compares to the [✂] machines provided to higher education customers by JLA and the [✂] machines provided by Washstation. Photo-Me said that it currently operates a [✂]% revenue-share in other markets.[270]

Other providers

8.107 Several other providers were identified by JLA as currently providing managed laundry services to higher education customers or as being possible entrants to the sector.

8.108 Goodman Sparks is a small regional player with limited resources. Goodman Sparks aims to grow its managed laundry service business to higher education customers by [✂].[271] Goodman Sparks explained that the reason [✂] is that Goodman Sparks is a small family business which has [✂]. Goodman Sparks said that the Merger between JLA and Washstation has lessened competition in the market. Prior to the Merger, it was very difficult to compete in the supply of managed laundry services to higher education customers with both Parties active. Goodman Sparks said that there is likely to be only JLA and Goodman Sparks competing for contracts in the North so Goodman Sparks estimated that it has a better chance of winning one of

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[265] Summary of hearing with Photo-Me, paragraph 6.
[266] Summary of hearing with Photo-Me, paragraph 13.
[267] Summary of hearing with Photo-Me, paragraph 15.
[268] Summary of hearing with Photo-Me, paragraph 12.
[269] Summary of hearing with Photo-Me, paragraph 13.
[270] Summary of hearing with Photo-Me, paragraph 10.
[271] Summary of hearing with Goodman Sparks, paragraph 1.

these contracts.[272] One customer in the CMA's customer research provided comments on Goodman Sparks. It stated that Goodman Sparks had responsive service due to their small size, but had been overtaken by other providers on modern technology.

8.109 Forbes Rentals is an independent national rental services company. Forbes entered the commercial laundry services market four years ago. Forbes provides commercial laundry equipment and service to the healthcare sector, care homes and the hospitality sector.[273] Forbes Rentals indicated that innovations (payment systems and online services) have made it difficult to respond to tenders in the higher education sector. Forbes Rentals said that it recently responded to a tender for a customer in the higher education sector and that the tender was highly prescriptive and seemingly based on the services provided by the incumbent provider. Forbes Rentals said that it participated in a few tenders and did not succeed in winning.[274] While stating that the capital required to purchase machines and refurbish laundrettes could act as a constraint for potential entrants, particularly when combined with high commission levels in vend share agreements, Forbes Rentals told us that it has set aside capital to enter the market for the provision of managed laundry services to higher education customers. It is aiming to secure [✂] higher education customers in the next 12 months.[275]

8.110 Maxwell Adam is an Electrolux distributor and a provider of laundry equipment, mainly to care homes and boarding schools. Maxwell Adam does not have any revenue sharing agreements. The equipment Maxwell Adam supplies is sold or leased.[276] Maxwell Adam said that the two reasons why it is not interested in supplying higher education customers is that the provider 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, which Maxwell Adams considers makes it 'impossible' for it to enter into this market.[277] Maxwell Adam is now in discussions with two possible higher education customers that approached Maxwell Adam[278] and has proposed to

[272] Summary of hearing with Goodman Sparks, paragraph 3.
[273] Summary of hearing with Forbes Rentals, paragraph 1.
[274] Summary of hearing with Forbes Rentals, paragraph 3.
[275] Summary of hearing with Forbes Rentals, paragraph 6.
[276] Summary of hearing with Maxwell Adam, paragraph 1.
[277] Summary of hearing with Maxwell Adam, paragraph 6.
[278] Summary of hearing with Maxwell Adam, paragraph 10.

those potential customers that these customers would lease the equipment (including a contactless system) and pay Maxwell Adam a fee for the supply of maintenance services, while these higher education customers would retain the revenue from the operation of the machines (ie a fixed rental agreement).[279] These discussions are at an early stage and it is unclear whether this offer will be attractive to higher education customers.

8.111 Laundry 365 is a regional provider of managed laundry services, mostly to care homes. It has tendered for higher education customers in the past, [✂]. RPC identified Laundry365 as the second-placed provider when RPC chose a managed laundry provider in 2017.[280]

8.112 The OPL Group is a provider of commercial laundry equipment (of the Electrolux brand as well as other brands) and related services. It is based in London and also offers vend share agreements to its customers, although, on the basis of its website, its higher education customer base appears to be limited.[281]

8.113 MAG Group is a regional distributor of Primer laundry machines which does not supply managed laundry services. It believes that it is not financially able to supply managed laundry services to higher education customers because of the large initial capital outlay necessary and that, given its cost base, it would not be competitive with JLA. It currently has no plans to offer vend share agreements.

8.114 Brewer and Bunney is a commercial and industrial laundry equipment distributor in the South West. It noted that it had lost its managed laundry services contracts with the [✂] and [✂] to JLA in 2014. It said that the commission level offered by JLA was and remains too high for it to compete for the provision of managed laundry services to higher education customers. Brewer and Bunney indicated that it is no longer monitoring the market for opportunities and confirmed that it has no plans to re-enter the market as it cannot compete at the price point that JLA is able to charge.

8.115 Thain Commercial stated that it is only involved in sales and fixed rentals of Miele laundry equipment and does not offer a full managed laundry service. It stated that it had never tendered for managed laundry services and has no plans to begin offering them as this is outside of their core business. JLA stated that it had recently lost a contract to Thain Commercial (a Miele

[279] Summary of hearing with Maxwell Adam, paragraph 12.
[280] Summary of hearing with Regent’s Park College, paragraph 4.
[281] See https://opl-ltd.co.uk/testimonials

distributor) in the higher education sector in Scotland. However, this tender appears to be for a fixed rental agreement for non-vending machines at an FE college which does not have on-site student accommodation. Thain Commercial offered a better price in this tender.

8.116 Wolf Laundry is a UK-wide laundry services provider. It does not have any direct relationships with higher education customers, but does provide laundry services to a small number of private accommodation providers. Wolf had only submitted a bid for one tender in the higher education sector in the last three years ([✂]). However, it indicated that the tender was highly prescriptive and seemingly tailored to the tenderer's incumbent provider. Wolf indicated that the payment system software specifications were such that only JLA could have satisfied this requirement. Wolf stated that it did not have any plans to enter into the higher education sector at this time. As mentioned above, Wolf recently won a small contract with a [✂].

8.117 As mentioned above in paragraph 7.50, in the CMA's customer research respondents were also asked which new providers they had become aware of since the last time they procured laundry services. 47 out of 59 had not become aware of any new providers. From the 12 respondents, that became aware of a new provider, the respondents that identified providers other than the Parties, Hughes and Armstrong, were one respondent that identified a Miele distributor and four respondents were unable to remember specific names.

Provisional findings on entry and expansion

8.118 We considered whether entry and/or expansion or buyer power could prevent an SLC from arising in this case.

8.119 Our review of the recent history of entry into the market indicated that there have been no recent examples of significant entry or expansion, apart from Washstation itself. Therefore, we examined specific barriers to entry and expansion which would be faced by any provider who wished to provide these services.

8.120 We provisionally found that a number of factors make entry and expansion difficult for some providers. These include: the cumulative cost of providing and implementing the services required by higher education customers (eg refurbishment, online and cashless payments services), the risk borne by the provider with vend share agreements, and the importance some customers attach to experience and reputation.

8.121 Even if these barriers to entry and expansion could be overcome by an experienced and well-financed party, higher education customers in general exhibit strong preferences in relation to the reputation of a prospective provider and the services that the provider should be able to offer.

8.122 Moreover, providers without an established presence in the sector may find it difficult to identify opportunities that are not publicly tendered (which account for a significant proportion of all potential opportunities). It can be difficult and costly for other providers to replicate JLA’s established knowledge of the market, including when most existing contracts come up for renewal. Combined with the long-term nature of managed laundry contracts, the lack of transparency is likely to make initial entry more difficult, even for firms who are well-established in providing laundry services to other sectors. Therefore, the lack of transparency around opportunities available to competitors is likely to increase the costs of entry and reduce the likelihood of successfully winning contracts, even in a growing market.

8.123 Collectively these barriers may be material, costly to overcome and may deter both entry and expansion by existing providers. However, we cannot, in principle, exclude the possibility that they could be overcome by a proactive and determined provider, with the necessary financial backing. We therefore assessed whether any third parties have plans to enter and expand that are timely, likely and sufficient to prevent any SLC resulting from the Merger.

8.124 The only credible candidate for expansion we identified is Armstrong. While Armstrong has plans to expand its geographic coverage and now has access to greater financial resources, the evidence we have considered raises significant doubts about the robustness of its expansion plans in higher education. In particular, Hughes does not currently appear to have formulated a concrete plan for Armstrong’s expansion in the higher education sector. Moreover, Armstrong lost its biggest ongoing contract and failed to win any large higher education contract. It also did not bid for any private higher education contracts.

8.125 Taking the evidence in the round, our provisional view is therefore that even if Armstrong may expand in the future, it is not likely that Armstrong would achieve a sufficient scale in a timely manner such that it would prevent any SLC arising.

8.126 We also provisionally found that no other possible entrant identified by JLA was likely to enter or expand in a timely and sufficient manner to constrain JLA such that it would prevent any SLC arising.

Buyer power

8.127 Buyer power can be generated by different factors. An individual customer's negotiating position will be stronger if it can easily switch its demand away from the supplier, or where it can otherwise constrain the behaviour of the supplier.[282] Where individual negotiations are prevalent, the buyer power possessed by any one customer will not typically protect other customers from any adverse effect that might arise from the merger.

8.128 For countervailing buyer power to prevent an SLC, it is not sufficient that it merely existed before the merger. It must also remain effective after the merger.[283] Mergers may reduce a customer's ability to switch or sponsor entry and, if the reduction has a significant adverse effect on the negotiating position of a customer, that customer's buyer power will not be sufficient to be countervailing.[284]

JLA's submission

8.129 JLA argued that higher education customers are frequent purchasers of goods and services with experienced procurement teams who know how and when to use competitive processes to get the best value for money from providers. JLA submitted that the size of these providers could allow them to sponsor entry from a provider already active in an adjacent sector by promising a single contract.

8.130 JLA claimed that the extent to which there is buyer power is "reflected by the fact that the average commission paid to [higher education] customers is c. [✂]%, yet of the [✂]% retained by JLA, it earns c. [✂]% after costs."

Existence of a credible alternative provider

8.131 In the Competitive Effects section, we analysed the competitive constraints that currently exist in the market. In that section, we described the evidence we have on the number of credible alternative providers in the market. In particular, the evidence indicates that pre-Merger Washstation was the closest competitor to JLA, with Armstrong's offering being weaker. We have not seen evidence that Armstrong or other players will enter or expand to replace the competitive constraint previously exerted by Washstation. This

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282 MAGs, paragraphs 5.9.2 and 5.9.4.
283 MAGs, paragraph 5.9.8.
284 MAGs, paragraph 5.9.4.

implies that although there exists at least one outside option in the market post-Merger, switching to this option may make customers worse off.

Sponsored entry

8.132 Where there currently exist few alternative options within a market, a customer could sponsor the entry of a new player. Such sponsored entry could allow a potential entrant to overcome entry barriers and build scale in a timely manner. In order for such a threat to be credible, the new player must be able to expand to compete with the incumbents within a relatively short period of time (around two years), so the customer is not persistently worse off by choosing this option.

8.133 We have conducted a detailed analysis of barriers to entry in the countervailing factors section, which concludes that although barriers to entry are not likely to be insurmountable, there is not a history of entry in the market (other than from companies associated with Mr Copley, who is subject to a non-compete obligation) and we were unable to identify entrants likely to prevent the SLC.

8.134 Additionally, it is unclear how sponsored entry would occur, as vend share agreements do not involve any payments from higher education customers to managed laundry providers.[285] It is possible that universities would accept lower commission rates to encourage a new player into the market. However, there is no guarantee that a new player would subsequently lower its prices (i.e. increase commission rates), to the level which they were before the Merger (see the Competitive Effects section and in particular our analysis of Goodman Sparks and Armstrong).

8.135 Given that the supply of managed laundry services is unlikely to be amongst the main priorities of higher education customers and to be the main focus of their businesses, we consider that these customers would not be likely to sponsor entry.

8.136 We considered higher education customers' ability to self-supply in paragraph 6.13 of the Market Definition section.

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[285] Sponsored entry could occur through a greater willingness to use fixed rental agreements. However, as set out in market definition and competitive effects the vast majority of higher education customers don't use these agreements at the moment, as they have a preference model that does not consume their capital. It unclear how sponsored entry could remedy this.

Large customer buyer power

8.137 A customer's size alone is insufficient to give it buyer power unless it provides outside options which do not exist to smaller customers.[286] Larger customers could gain buyer power if they have more resources at their disposal to procure machines and operate their own laundry rooms. However, we have found no evidence that they either currently do this (except in limited circumstances) or would do this in response to a price change.

Provisional view on buyer power

8.138 As set out above, the evidence suggests that higher education customers are unlikely to be able to credibly threaten to switch to credible alternative providers. We have not seen evidence to suggest that higher education customers have buyer power sufficient to mitigate or prevent an SLC arising in the UK in the supply of managed laundry services to higher education customers under vend share agreements.

Efficiencies

8.139 As explained in our guidance, efficiencies may enhance rivalry, with the result that the merger does not give rise to an SLC.[287]

8.140 JLA submitted that the Merger was an opportunity to achieve a more timely and efficient service proposition for customers without any increase in overheads or head count. It further said that customers have benefited from the Merger due to an improved service level and the end of Washstation's practice of paying some customers' commission late. JLA stated that the Merger means that Washstation's customers have access to JLA's broader engineering network leading to faster responses and repairs, benefiting both customers and end users. Washstation's engineering network used a "milk round" model, where engineers would make regular visits to customers' site to perform basic maintenance and solicit customer comments. JLA uses a "callout" model where customers report problems to JLA centrally and an engineer is dispatched to the site when needed; customers also have a dedicated client relationship manager to look after the customer engagement.

[286] Larger customers may have more sophisticated procurement departments that given the same outside options as a smaller customer can extract a better deal. However, any reduction in the outside options in the market will affect both customers unless there is something special about larger customers. This will result in them getting a worse deal than currently even if it remains superior to that received by a small customer.
[287] MAGs, paragraph 5.7.2.

JLA has stated that its model does not represent a decline in service quality compared to Washstation.

8.141 JLA further stated that the Merger has led to cost synergies and to improved service for Washstation's customers. The cost synergies estimated by the parties total to approximately £[✄], consisting of savings of £[✄] on engineering, £[✄] on sales and marketing, and £[✄] on admin and finance overheads. These synergies represent overhead costs which are necessary for managing individual businesses but which do not need to be duplicated within a single business.

8.142 With regard to the cost savings claimed by JLA, these savings will only affect the customers acquired with the Merger and not impact. JLA's cost basis. It is unclear whether the cost savings act to increase rivalry within the market. JLA has not provided any evidence that this would be the effect of the identified cost savings.

8.143 We have seen that customers considered both JLA and Washstation to be credible competitors in their own right before the Merger.

8.144 JLA has not produced any evidence showing that the efficiency savings they identified would improve the merged entity's ability to compete in the supply of managed laundry services in the UK.

8.145 We have therefore placed limited weight on JLA' claims on efficiencies in our assessment of the Merger.

9. Provisional conclusions

9.1 As a result of our assessment we have provisionally found:

(a) that the Merger has resulted in the creation of a relevant merger situation; and

(b) that the Merger has resulted, or may be expected to result, in an SLC in the market for the supply of managed laundry services to higher education customers under vend share agreements in the UK.