

## **JLA/WASHSTATION MERGER INQUIRY**

### **Summary of hearing with C. Knollys, the hold separate manager of Washstation, on 20 August 2018 at 3pm – 3:45pm**

1. Mr C. Knollys, the hold separate manager of Washstation (the **HSM**), explained that he had read the CMA's provisional findings in the JLA/Washstation merger phase 2 investigation, published on 10 August 2018 (the **PFs**). He said that he agreed with the findings and had no further comments on the PFs.

#### ***Remedy selection***

2. The HSM said that the divestiture of the Washstation business would be an effective remedy to address the competition problems found in the PFs and that he could not think of any other effective solution.

#### ***The divestiture package***

3. The HSM told us that the following items should be included in the divestiture package:
  - a. customer contracts;
  - b. installed machines;
  - c. all stock associated with the Washstation business, including decommissioned machines;
  - d. a team of in-house engineers and access to a network of engineering subcontractors;
  - e. the Washstation brand and website;
  - f. the Washstation IT server;
  - g. all Washstation data accumulated on JLA systems (eg [X]) and all Washstation data not formally held on JLA systems (eg spreadsheets supporting management information);
  - h. the financial accounts for the previous three financial years to facilitate credit checking;
  - i. an integrated management information system capable of providing site-level performance data to customers;

- j. a helpline telephone number and customer service staff;
- k. a product supply agreement with an Original Equipment Manufacturer (eg Maytag or Alliance) to ensure the guaranteed supply of machines and spare parts;
- l. a customer relationship management programme;
- m. an office and warehouse facility;
- n. Washstation bank accounts;
- o. support staff including a sales manager, operations manager, administrator and finance support. The HSM told us that as many former Washstation employees as possible should be part of the divested business.

### ***The transition period***

- 4. The HSM said that a transition period was necessary to enable the purchaser to familiarise themselves with the Washstation business. The HSM told us that the length of the transition period depended on the expertise of the buyer, although, based on the HSM's experience of operating the Washstation business, a minimum transition period of 2 to 3 months would be necessary. The HSM said that it was critical to restrict the transition period and the overall divestiture process to the minimum necessary.
- 5. The HSM told us that the maintenance of key support functions immediately following divestiture was critical to the success of the remedy, as a failure of service provision during this time would damage the divested business and threaten its ability to compete effectively with JLA. The HSM told us that customers were willing to accept a certain period of uncertainty, however if this period was too long, customers may look for other suppliers.

### ***Staff required***

- 6. The HSM stated that the original Washstation staff consisted of 10 people, who understood the Maytag machines used by Washstation and had good relationships with customers, which was important. The HSM said he was not quite sure how many engineers were needed but that the six engineers currently employed by Washstation were sufficient for now, although a network of subcontracted engineers may be needed to support the Washstation engineers.
- 7. The HSM further submitted that it would be important to have a telesales team in place to find new opportunities (ie identify new potential customers whose contracts were due to end shortly). The HSM suggested that This could be outsourced to speed up the process.

8. In addition to the above staff, the HSM said that a back-office team, including a finance manager and a full-time operations manager, would be necessary and they would be reliant on an IT system.

### ***Suitable purchasers***

9. The HSM told us that [REDACTED].
10. The HSM said that, in his view, there were parties that would be interested in acquiring Washstation. The HSM said that companies already active in the market, [REDACTED], as well as those operating in adjacent sectors may be interested in purchasing Washstation. In addition, the HSM suggested that international commercial laundry companies looking to expand into the UK may be interested, as well as private equity firms.
11. The HSM said that the managed laundry sector was very capital-intensive and any interested party should have the necessary funding in place to invest in staff and machines. The HSM told us that existing expertise was not essential, but reputation is important.

### ***Effective divestiture process***

12. The HSM emphasised that a clear communication to the market about the sale of Washstation was necessary to confine the time of uncertainty to the minimum necessary.
13. The HSM told us that the installation of machines mostly take place during the Summer and that managed laundry providers tended to sub-contract the installation out to external engineers. The HSM noted that there might be an access issue if JLA were to agree exclusivity with certain engineering contractors.
14. The HSM told us that the following relevant customer benefits might be affected by the divestiture, although this depended on the purchaser's strategy:
  - a. The level of commission paid to customers.
  - b. Frequency of site visits by engineers.
  - c. Provision of site-specific performance data to customers (requiring IT investment).
  - d. The provision of a remote monitoring system to end users.