

Completed acquisition by Rentokil Initial plc of Cannon Hygiene Limited

Appendices

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Terms of reference and conduct of the inquiry

Terms of reference

On 28 June 2018, the CMA referred the completed acquisition by Rentokil Initial plc of Cannon Hygiene Limited. The terms of reference were as follows:

1. In exercise of its duty under section 22(1) of the Enterprise Act 2002 (the Act) the Competition and Markets Authority (CMA) believes that it is or may be the case that:
 - (a) a relevant merger situation has been created, in that:
 - (i) enterprises carried on by Rentokil Initial plc (Rentokil) have ceased to be distinct from enterprises carried on by Cannon Hygiene Limited (Cannon); and
 - (ii) the condition specified in section 23(2)(b) of the Act is satisfied; and
 - (b) the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within a market or markets in the United Kingdom for goods or services, including the supply of washroom services by washroom specialists to national customers in the UK and to regional and local customers in the UK.
2. Therefore, in exercise of its duty under section 22(1) of the Act, the CMA hereby makes a reference to its chair for the constitution of a group under Schedule 4 to the Enterprise and Regulatory Reform Act 2013 in order that the group may investigate and report, within a period ending on 12 December 2018, 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 within any market or markets in the United Kingdom for goods or services.

**Sheldon Mills – Senior Director, Mergers
Competition and Markets Authority
28 June 2018**

Conduct of the inquiry

1. On 28 June 2018, the transaction was referred for an in-depth (phase 2) merger investigation.
2. We published [biographies of the members of the inquiry group](#) conducting the inquiry on 29 June 2018, and the [administrative timetable](#) for the inquiry on 6 July 2018, with subsequent updates being published as applicable.
3. We sent detailed questionnaires to interested parties and evidence was obtained from these third parties through telephone discussions and written requests. Evidence provided to the CMA during phase 1 was also considered in phase 2.
4. On 16 July 2018, we published an [issues statement](#), setting out the main issues we were likely to consider in this inquiry and inviting comments from the main and third parties.
5. On 18 July 2018, members of the inquiry group, accompanied by staff, visited the head offices of each of Cardtronics and DCP.
6. We received written evidence from the Parties. A [non-confidential version of their response to the phase 1 decision](#) is on our webpages together with their [response to the issues statement](#). On 14 September 2018, we held a hearing with the Parties.
7. In the course of our inquiry, we sent to the Parties, as well as third parties, some working papers and extracts from those papers for comment.
8. A non-confidential version of the provisional findings report has been placed on the [case page](#).
9. We would like to thank all those who have assisted in our inquiry so far.

National and multi-regional customers

1. This appendix sets out the evidence on the national and multi-regional customers of the Parties and other washroom services suppliers.
2. We note that different suppliers interpret the concept of 'national customer' differently. Where possible, we have sought to identify national and multi-regional customers as those with sites in eight or more regions in the UK, or in the case of frameworks, those with a national and multi-regional coverage available to end customers in the majority of regions of the UK.
3. We also present other evidence on washroom service suppliers considered by the Parties to be national or potentially national.

The Parties' data

Rentokil

4. Table 1 presents a summary of Rentokil's national and multi-regional customers and FM customers served in 8 or more regions, and framework customers with a national or multi-regional coverage.¹

Table 1: Rentokil national and multi-regional customers, washroom services, 2017

<i>Customer</i>	<i>Revenue (£ '000)</i>	<i>Number of customers</i>	<i>Average revenue per customer (£ '000)</i>
End customers in 8 or more regions	[<]	[<]	[<]
FM companies in 8 or more regions	[<]	[<]	[<]
Public frameworks with a national or multi-regional coverage	[<]	[<]	[<]
Private frameworks with a national or multi-regional coverage	[<]	[<]	[<]
Total of end-customers, FM companies and frameworks identified above	[<]	[<]	[<]
Total of end-customers, FM companies and frameworks identified above (% of Total)	[<]	[<]	
2017 Total Revenue (all customers)	[<]	[<]	

Source: [<]

Note: Number of customers identified at the 'group account' level.

Note: [<]

Note: [<]

¹ Frameworks with a national or multi-regional coverage refer to frameworks which are open to end customers in a majority of regions of the UK.

Cannon

5. Table 2 presents a summary of Cannon's national and multi-regional customers, FM customers and framework customers served in 8 or more regions.

Table 2: Cannon national and multi-regional customers, washroom services, 2017

<i>Customer</i>	<i>Revenue (£ '000)</i>	<i>Number of customers</i>	<i>Average spend (£ '000)</i>
End customers in 8 or more regions	[X]	[X]	[X]
FM companies in 8 or more regions	[X]	[X]	[X]
Public frameworks with a national or multi-regional coverage	[X]	[X]	[X]
Private frameworks with a national or multi-regional coverage	[X]	[X]	[X]
Total of end-customers, FM companies and frameworks identified above	[X]	[X]	[X]
Total of end-customers, FM companies and frameworks identified above (% of Total)	30-40%	0-5%	
2017 Total Revenue (all customers)	[X]	[X]	

Source: [X]

Note: Number of customers identified at the group account level.²

Note: [X]

Submissions from third parties

PHS

PHS's own customers

6. We do not have precise data on PHS's national and multi-regional customers based on the definition of customers in eight or more regions. PHS told us that:
- (a) It has [X] customers, defined as a customer with an annual spend [X]. Most 'key account' customers are national (ie covering [X] regions) in scope.³
- (b) It has [X] customers, defined as those with an annual spend [X]. Some [X] customers are national.

² This overstates the number of customers as some customers (like OCS group) have multiple group accounts

³ [X].

7. Table 3 presents a summary of the revenue and number of PHS's 'key account' customers.⁴

Table 3: PHS key account customers

<i>Customer</i>	<i>Revenue (£ '000)</i>	<i>Number of customers</i>	<i>Average spend (£ '000)</i>
End customers (key account)	[redacted]	[redacted]	[redacted]
FM (key account)	[redacted]	[redacted]	[redacted]
All key account customers	[redacted]	[redacted]	[redacted]
All key account customers (% of 2017 Total)	20-30%	0-5%	
2017 Total Revenue	[redacted]	[redacted]	

Source: [redacted] Note: PHS does not classify frameworks as key account customers

8. We do not have revenue data from PHS on its framework customers. We note that PHS is listed on several public frameworks including ESPO, NWUPC, YPO and Scotland Excel.

PHS estimates of current and potential key account customers

9. PHS provided the CMA with a list of its current 'key account' customers [redacted]. On this basis, PHS provided its estimated shares across current and potential PHS key account customers, presented in Table 4 below. PHS told us that most 'key account' customers are national in scope.

Table 4: Estimated shares across current and potential PHS key account customers

<i>Washroom service supplier</i>	<i>Revenue (£ '000)</i>	<i>Share (%)</i>
PHS	[redacted]	[redacted]
Rentokil	[redacted]	[redacted]
Cannon	[redacted]	[redacted]
Parties Combined	[redacted]	[redacted]
Mayflower	[redacted]	[redacted]
Mix	[redacted]	[redacted]
Regional	[redacted]	[redacted]
Shorrock Trichem	[redacted]	[redacted]
Cathedral	[redacted]	[redacted]
NIRE	[redacted]	[redacted]
Complete Washrooms	[redacted]	[redacted]
Others	[redacted]	[redacted]
Unknown	[redacted]	[redacted]
Total	[redacted]	[redacted]

Source: [redacted]

⁴ [redacted]

Cathedral

10. Cathedral did not provide precise data on national and multi-regional customers based on the definition of customers in eight or more regions. Cathedral submitted the following.
- (a) It estimated that it has around [X] customers in eight or more regions, which together made up less than 10-20% of its total turnover.
 - (b) Its 2017 total revenue for all customers was [X] (including washrooms, mats and laundry). It was not able to provide a breakdown for revenue of washroom services only.
 - (c) It provided ten examples of national and multi-regional customers, which are presented in Table 5. The total annual spend of these customers are [X] (or [X] per customer on average).
 - (d) It confirmed that [X] is a national customer, and it had previously supplied [X] (£[X] of revenue), [X], [X] and [X].
 - (e) It did not provide examples of any FM companies or frameworks that it currently services.

Table 5: Examples of national and multi-regional customers, Cathedral

Customer	Number of regions	Number of sites serviced by Cathedral	Annual spend (£ '000)	Whether Cathedral believed it is the only supplier
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]	[X]

Source: Cathedral's response to the CMA's Draft s109 notice of 25 September 2018

Mayflower

11. Mayflower did not provide precise data on national and multi-regional customers based on the definition of customers in eight or more regions. Mayflower submitted the following.
- (a) It currently supplies between [X],⁵ identified as customers with 25 or more delivery points served from all its depots.

⁵ [X]

- (b) It estimated that 30-40% of its washroom revenue is from business with customers supplied in more than eight regions.⁶
- (c) Its total washroom services turnover for all customers was [REDACTED].
- (d) It confirmed that its top six customers include [REDACTED]. Mayflower did not provide revenue data for these customers.
- (e) In addition, it [REDACTED] and [REDACTED]. Mayflower told us it is unsure if it supplies [REDACTED] via an FM company.
- (f) It also identified a number of other FM customers that it supplies, including [REDACTED].⁷
- (g) It competes in tenders for 'national customers' around four to six times per month, [REDACTED].⁸

12. We note from our analysis of the Parties' private tendering data (Appendix E) that:

(a) [REDACTED]

(b) [REDACTED]⁹

(c) [REDACTED].

13. We note from PHS's 'potential key account' customer list that [REDACTED] (revenue of [REDACTED]) is identified as a [REDACTED] customer.

Berendsen

14. Berendsen provided us a list of its top ten customers by revenue to which it provides washroom services in multiple regions; five of which are national and multi-regional customers in eight or more regions.¹⁰ The total annual spend of these five customers on washroom services was £174,000 (or £34,800 per customer).¹¹

15. As set out in Chapter 8, Berendsen outsources all washroom services [REDACTED].

⁶ [REDACTED]

⁷ [REDACTED]

⁸ [REDACTED]

⁹ [REDACTED]

¹⁰ [REDACTED]

¹¹ [REDACTED]

Independent Washroom Services Association (IWSA)

16. IWSA told us that:
- (a) Three of its members had multi-regional contracts.
 - (b) [redacted] are two examples of national contracts under IWSA.
 - (c) South West Hygiene, an IWSA member, had just been awarded a ‘very large contract’ under IWSA.¹²

Hygienic Concepts

17. Hygienic Concepts have confirmed to the CMA that [redacted] are two of its national and multi-regional customers.¹³ It estimated that the annual contract value is [redacted], and Hygienic Concepts services [redacted] across GB.
18. Hygienic Concepts told us that:
- (a) Its 2017 total washroom services turnover was approximately [redacted], of which customers being served in 8 or more regions make up approximately [redacted].
 - (b) It is a preferred supplier with [redacted] FM companies, including [redacted] (revenue of [redacted]), [redacted] (revenue of [redacted]) and [redacted] (revenue [redacted]).
 - (c) It has previously served [redacted] in [redacted].

Chiltern Hygiene

19. Chiltern Hygiene submitted that it has [redacted] national and multi-regional customers with sites across the UK: [redacted].¹⁴

¹² [redacted]

¹³ [redacted]

¹⁴ [redacted]

Other evidence on washroom services suppliers considered by the Parties as national or potentially national

20. Table 6 below summarises the evidence available regarding the competition from washroom services suppliers that the Parties considered to be national or potentially national (other than PHS, Cathedral, Mayflower, Berendsen and Zenith which are discussed in detail in Chapter 8).

Table 6: Other evidence on washroom services suppliers

Supplier	Region(s)	Evidence
[X]	[X]	<ul style="list-style-type: none"> • [X] • One national customer [X] considered B Hygienic as a viable local supplier serving a local area rather than a region. In the last tender by this customer, B Hygienic was ranked 4th (after Cannon, PHS and Rentokil), the reasons being 'good local delivery of service' but 'harder to manage' and 'price tends to be higher'. <p>[X]</p>
[X]	[X]	[X]
[X]	[X]	[X]
[X]	[X]	[X]
[X]	[X]	[X]
[X]	[X]	[X]

Sources: CMA analysis of the Parties' documents (Appendix 24.1 IWH Strategy 2017, P.51; Market Questionnaire, Q22.; Annex 182 – Colleague survey results 2017 – with Branch info; Annex 186; Annex 013 IWS Competitor Master Sheet 2016; Annex 015 – 2017 IWS Competitor Analysis)

Tendering analysis

Introduction

1. This appendix sets out our analysis of tenders held by private and public sector customers relating to procurement of washroom services that the Parties participated in between 2015 and 2017. In particular, we considered:
 - (a) The other alternative suppliers available to customers.
 - (b) The closeness of competition between Rentokil and Cannon and other suppliers.
2. We analyse private and public sector tenders separately.
 - (a) We consider the analysis of private tenders to reflect the competition for national and multi-regional customers. We note that the majority of private sector tenders in our analysis relate to national and multi-regional customers (in eight or more regions).
 - (b) We consider the analysis of public tenders to reflect the competition in respect of public framework users. We note that public sector customers typically procure using a public framework.

Description of data

Dataset provided by the Parties

3. The Parties submitted data for tenders in which they participated between 2015 and 2017.¹
4. This data consists of [X] tenders reported by Rentokil and [X] tenders reported by Cannon by private and public sector customers. These tenders include opportunities in washroom services, some of which are combined tenders with mats and/or medical services.²
5. The Parties told us that some observations in the data are benchmarking exercise rather than formal tenders. In a benchmarking exercise, a customer invites other suppliers to quote in order to obtain a benchmark to negotiate with their incumbent suppliers. We consider that both tenders to appoint a a

¹ [X]

² We did not consider tenders which were exclusively for mats or medical services.

supplier, and invitation for quotes for benchmarking purposes are competitive interactions between suppliers, and hence provides useful information for the competitive assessments.

6. This data reports the following parameters, amongst others:
 - (a) The annual expected value of each tender³
 - (b) Whether either or both Parties bid for the tender
 - (c) Whether the Party has won
 - (d) Other bidders (if known)
 - (e) Winner of the tender (if known)
7. The data does not report the types of service covered within washroom services, but we note that the majority of the Parties' customers purchase waste disposal as part of washroom services.
8. The data does not report the geographic scope of the tenders. Based on our desktop research of the geographic scope of the customers, we find that national and multi-regional customers (in eight or more regions) accounted for 90-100% by value of tenders lost by Rentokil and 80-90% of tenders lost by Cannon considered in the analysis.

Changes to the data

9. We describe the changes we have made to the dataset below.

Identification of customer sector

10. We have identified whether a tender is in the public sector or private sector based on our desktop research and information provided by the Parties.⁴ Table 1 summarises the number and value of tenders participated in by each of the Parties for public and private sector customers.

³ [redacted]

⁴ [redacted]

Table 1: Summary of tender data

	<i>Total tenders participated (number, and expected value) – Private sector</i>	<i>Total tenders participated (number, and expected value) – Public sector</i>
Rentokil	[REDACTED]	[REDACTED]
Cannon	[REDACTED]	[REDACTED]

Source: [REDACTED]

- We have removed a duplicated entry (First Bus PQQ; duplicate of First Bus ITT).

Identity of unknown tender winner

- The Parties said that the CMA did not take steps ‘to address the challenge around the number of “unknown” winners in the tender data’.⁵
- For private sector tenders, which accounted for the majority of the tenders by value in the dataset, we have sought to identify unknown winners using both Parties’ information. Specifically, we have identified if the other Party was an incumbent supplier, or if the other Party identified a winner for the same tender. In addition, both Parties have [REDACTED].⁶ The changes we made are listed in Table 2 below.

Table 2: Changes made in the tendering data

Customer opportunity	Winner reported by Cannon	Winner reported by Rentokil	Changes made
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

- Similarly, for public tenders, Rentokil [REDACTED]; but Cannon did not provide this information.⁷

⁵ [REDACTED].

⁶ [REDACTED]

⁷ [REDACTED]

15. We discuss the proportion of tenders with an unknown winner in our analysis below.

Competitor tendering data

16. Our analysis of the public tender data provided by PHS is set out below.
17. In addition, we requested Cathedral and Mayflower to provide their tender data.
 - (a) [redacted] It provided a sample of ten 'national accounts' that its sales team has quoted in the past 12 months. We note that these customers were not in the Parties' tendering data.
 - (b) [redacted].

Data reliability

Unknown bidders and winners

18. In Rentokil's data, the proportion of unknowns is small:
 - (a) For public tenders, 5-10% of tenders have unknown bidders, and 10-20% of public tenders lost by Rentokil have unknown winners (both by value).
 - (b) For private tenders, 10-20% of tenders have unknown bidders, and 5-10% of private tenders lost by Rentokil have unknown winners (both by value).
19. In Cannon's data on private tenders, the proportion of tenders lost by Cannon with unknown winners is small (5-10%, by value).
20. Cannon was unable to identify other bidders or winners in a high proportion of public tenders. The bidders were unknown for 80-90% of public tenders (by value) in which Cannon participated. The winners were unknown for 50-60% of public tenders (by value) in which Cannon participated and lost. The results based on public tenders lost by Cannon should therefore be interpreted with caution.

Representativeness of tender data

21. In Phase 1, [REDACTED]:⁸
 - (a) [REDACTED]
 - (b) [REDACTED]
 - (c) [REDACTED]
 - (d) [REDACTED]
 - (e) [REDACTED].⁹
22. Rentokil has updated its estimate of the proportion of new business where customers procured using tendering from 0-5% to 5-10%. The estimate for Cannon is 10-20%.¹⁰
23. The CMA finds that the Parties' estimates of the proportion of tenders, based on all large and small customers, is likely to understate the use of tendering by private national and multi-regional customers. Based on customer submissions and other evidence assessed in Chapter 8, we find that tendering is a common method used by national and multi-regional customers to procure washroom services.
24. However, given the lack of transparency in the tendering process, we note that it is harder to identify competing bidders than to identify the winner of a contract (for example, a winner can be identified by monitoring the premises of the customer in question). We have focused our analysis on winners of tenders lost by the Parties, rather than bidders of tenders.

Private sector tendering analysis results

25. We assessed the extent to which the other Party and other competitors have won private sector tenders lost by each of the Parties. Based on our desktop research, we find that national and multi-regional customers (in eight or more regions) accounted for 90-100% by value of tenders lost by Rentokil and 80-90% of tenders lost by Cannon considered in the analysis.

⁸ [REDACTED]

⁹ [REDACTED]

¹⁰[REDACTED]

Winners of tenders lost by Rentokil

26. Table 3 below shows, for tenders that Rentokil has participated in and lost (fully or partially), the share won by each supplier. Rentokil data indicates that:

- (a) PHS has the highest share of wins by value (70-80%), followed by Cannon (5-10%)
- (b) Zenith Hygiene has won [redacted]. Zenith has confirmed to the CMA that [redacted]
- (c) Chiltern Hygiene has won [redacted] (which is not a national or multi-regional customer)
- (d) A tender ([redacted]) was awarded to Rentokil and Pink Hygiene. This suggests that a contract can be awarded to more than one supplier.
- (e) The proportion of unknown contracts was small by value (0-5%).
- (f) No FM companies were identified as a winner of any tenders.

Table 3: Winners of private tenders lost by Rentokil

Winner of tender	Number of tenders won	% of tenders won	Value of tender won (£)	% value of tenders won
PHS	[redacted]	40-50%	[redacted]	70-80%
Cannon	[redacted]	10-20%	[redacted]	5-10%
Pink Hygiene & Rentokil	[redacted]	0-5%	[redacted]	0-5%
Zenith	[redacted]	0-5%	[redacted]	0-5%
Chiltern Hygiene	[redacted]	0-5%	[redacted]	0-5%
Unknown	[redacted]	20-30%	[redacted]	0-5%
Total	[redacted]	100%	[redacted]	100%

[redacted]
Source: [redacted]

Winners of tenders lost by Cannon

27. Table 4 below shows, for tenders that Cannon participated in and lost, the proportion won by each supplier. Cannon data indicates that:

- (a) PHS has the highest share of wins by value (40-50%)
- (b) Rentokil has the next highest share (20-30%)
- (c) Mayflower captured 10-20% [redacted]. We note that [redacted]. [redacted] is not a national and multi-regional customer.
- (d) Hygienic concepts won a contract [redacted].
- (e) SRCL issued a washroom services tender and Cannon reported that SRCL continued to self-deliver.
- (f) The proportion of unknown contracts was small by value (5-10%).

(g) No FM companies were identified as a winner of any tenders.

Table 4: Winners of private tenders lost by Cannon

Winner of tender	Number of tenders won	% of tenders won	Value of tender won (£)	% value of tenders won
PHS	[redacted]	20-30%	[redacted]	40-50%
Rentokil	[redacted]	10-20%	[redacted]	20-30%
Mayflower	[redacted]	0-5%	[redacted]	10-20%
SRCL continued to self-deliver	[redacted]	0-5%	[redacted]	0-5%
Hygienic concepts	[redacted]	0-5%	[redacted]	0-5%
Unknown	[redacted]	50-60%	[redacted]	5-10%
Total	[redacted]	100%	[redacted]	100%

[redacted]Source: [redacted]

Public sector tendering analysis results

28. We assessed the extent to which the other Party and other competitors have won public sector tenders lost by each of the Parties.
29. The Parties submitted that conditions of competition may not be materially different between public sector customers who tender and other local/regional customers who directly procure washroom services since the CMA has not found a restriction of local or regional competition.¹¹
30. As discussed in Chapters 7 and 8, public sector customers procure washroom services with formal tendering, typically using a framework agreement. The formal tendering process is likely to limit the set of competitors available to public sector customers, compared to customers that procure from washroom services providers directly.
31. In this section, we consider:
 - (a) Analysis of public tenders lost by each of the Parties;
 - (b) Competition to be listed on framework organisations;
 - (c) Analysis of public tenders submitted by PHS.

Analysis of tenders lost by Rentokil

32. Table 5 below shows, for tenders that Rentokil has participated in and lost, the share won by each supplier. We note that:
 - (a) PHS has the highest share of wins by value (60-70%), followed by Cannon (20-30%)

¹¹ [redacted]

(b) Rentokil identified the winner of a tender [redacted].¹² The customer in question was [redacted].

(c) The proportion of unknown winners is [redacted] and [redacted] according to the Parties' verification in response to the AIS.

Table 5: Winners of public tenders lost by Rentokil

Winner of tender	Number of tenders won	% of tenders won	Value of tender won (£)	% value of tenders won
PHS	[redacted]	40-50%	[redacted]	60-70%
Cannon	[redacted]	10-20%	[redacted]	10-20%
Retained by incumbent (local supplier)	[redacted]	0-5%	[redacted]	0-5%
Unknown	[redacted]	30-40%	[redacted]	10-20%
Total	[redacted]	100%	[redacted]	100%

Note: [redacted]

Source: [redacted]

Winners of tenders lost by Cannon

33. Table 6 below shows, for tenders that Cannon participated in and lost, the proportion won by each supplier. We note that:¹³

- (a) PHS has the highest share of wins (40-50%)
- (b) Rentokil won [redacted] contracts accounting for [redacted] of tenders lost by Cannon
- (c) Robinson Services won a contract [redacted].
- (d) The proportion of unknown winners is [redacted]. If unknowns are excluded, PHS has the highest share of wins by value (80-90%), followed by Rentokil (5-10%) and Robinson Services (0-5%)

Table 6: Winners of public tenders lost by Cannon

Winner of tender	Number of tenders won	% of tenders won	Value of tender won (£)	% value of tenders won
PHS	[redacted]	10-20%	[redacted]	40-50%
Rentokil	[redacted]	5-10%	[redacted]	0-5%
Robinson Services	[redacted]	0-5%	[redacted]	0-5%
Unknown	[redacted]	70-80%	[redacted]	50-60%
Total	[redacted]	100%	[redacted]	100%

Note: [redacted]

Source: CMA analysis of Appendix 186, Rentokil's response to Market Questionnaire

34. However, caution should be exercised in interpreting the result, since the winner identity was unknown [redacted] of the public sector tenders lost by Cannon.

¹² Reported as 'Retained by incumbent (local supplier)'.
¹³ All lost proportion by value.

Competition to be listed on framework organisations

35. The Parties' public tender dataset includes tenders by end-users to choose a supplier,¹⁴ and tenders by two public framework organisations to list suppliers on the framework:
- (a) Eastern Shires Purchasing Organisation (ESPO) Framework (October 2015)
 - (b) North Western Universities Purchasing Consortium (NWUPC) Framework (September 2016)
36. We have separately analysed tenders by these two organisations as it is not possible to attribute the value of contracts to individual suppliers listed on the framework, because the suppliers do not obtain the same volume of business once they get listed on the framework.
37. We have asked ESPO and NWUPC the extent to which the Parties, PHS and other suppliers have won businesses within these frameworks. Both organisations told us that PHS, Rentokil, and to a lesser extent Cannon, together account for [redacted] customer spend.
38. ESPO told us that:
- (a) Four suppliers were appointed on the ESPO framework: Hygiene Solutions, Cannon, Rentokil and PHS
 - (b) The share of spend of washroom services are split by supplier as follows: Cannon: 12%, Rentokil: 23%, PHS: 65%, Hygiene Solutions: 'some but not a lot'.
 - (c) PHS and Rentokil would [redacted], Cannon is [redacted].
39. NWUPC told us that:
- (a) Six suppliers were appointed on the NWUPC Framework: PHS, Rentokil, Cannon, Healthcare Environmental Services (HES), 1st Class Hygiene, AM Services t/a Pristine Washroom Services
 - (b) The share of spend of washroom services are approximately, split by supplier, as follows: Cannon; 5%, Rentokil: 40%, PHS: 50%, Others: 5%

¹⁴ We understand that public sector customers typically procure washroom services using a public framework organisation, although they can tender independently.

- (c) Rentokil and PHS are the most competitive supplier for the key services under the framework, followed by Cannon

PHS's analysis of public sector tenders

40. [REDACTED]
41. [REDACTED]
- (a) [REDACTED]
- (b) [REDACTED]
- (c) [REDACTED]
- (d) [REDACTED]
42. [REDACTED]
43. [REDACTED]:
- (a) [REDACTED]
- (b) [REDACTED]
44. [REDACTED]:
- (a) [REDACTED]
- (b) [REDACTED]
45. We note that other than the Parties, PHS's tendering data only identified [REDACTED]
46. We consider that PHS's analysis indicate that PHS is a close competitor of each Party in the supply of washroom services to public sector customers. While PHS analysis identified other suppliers, such as [REDACTED], against which it competed, [REDACTED] winner other than the Parties.

Rentokil customer loss analysis

Introduction

1. This Appendix sets out our switching analysis of the business lost by Rentokil.¹ We carried out this analysis to understand:
 - (a) The alternative suppliers available to customers when they switched away from Rentokil, and thereby the constraints on Rentokil.
 - (b) The closeness of competition between Rentokil and Cannon and other suppliers.
2. We focus on national and multi-regional customers in this analysis.²

Description of data

3. Rentokil submitted two separate datasets in relation to its lost business. We received the first in response to the Market Questionnaire (Market Questionnaire dataset),³ and the second was underlying the submission on local analysis by RBB Economics (RBB dataset).⁴ We briefly describe the datasets and their differences below.

Market Questionnaire dataset

4. Rentokil provided a list of customers' business it had gained or lost between 2015 and 2017.⁵ However, Rentokil was unable to identify the supplier from which it had won business. We focus on customer loss data in what follows.
5. The dataset contains details of the customer (identified by group account), including the revenue of each washroom service lost, the identity of the branch that previously serviced the premises, the number of customer sites,

¹ Cannon was not able to identify competitors to which it has lost or which it has won business from. We therefore could not carry out any switching analysis for Cannon customers.

² We define national and multi-regional customers by geography, focusing on customers in eight or more regions of the UK. See Chapter 8 of the Provisional Finding Report.

³ [redacted]

⁴ [redacted]

⁵ Rentokil told us that the dataset is based on an extract from Rentokil's [redacted] system that identifies any reduction in portfolio value.

the identity of the competitor to which the business was lost (where known), and the reason for loss.

6. Only in a small proportion of cases does the dataset identify the supplier to which Rentokil lost business. Rentokil told us that the records were incomplete, with the competitors being unknown in most instances, and it did not consider competitors identified to be completely reliable. This presented significant limitations to the usefulness of this dataset in terms of our analysis.
7. Rentokil told us that it sought to exclude any instances where there was a reduction in portfolio value due to the closure of a customer, termination on the part of Rentokil, or renegotiations of the contract.
8. Rentokil also told us that the data for 2015 does not include contracts that were lost as a whole.⁶

RBB dataset

9. Rentokil submitted an analysis by RBB Economics on local effects, which relied upon a different customer loss dataset. RBB explained that Rentokil collected this dataset by asking its branch managers to identify the competitors to whom it lost business for both terminations and reductions during January 2017 to June 2018.⁷
10. We asked Rentokil to describe the differences between the Market Questionnaire dataset and the RBB dataset. It told us that the main differences between the datasets are:⁸
 - (a) Renegotiations where the business was subsequently lost were included in the Market Questionnaire dataset but not in the RBB dataset.⁹
 - (b) Losses from 2018 (i.e. the post-merger period) were included in the RBB dataset but not in the Market Questionnaire dataset.
11. Later, in response to the AIS, Rentokil told us that:
 - (a) Rentokil inadvertently excluded losses that arose as part of renegotiations (referred to in paragraph 10(a) above), meaning that 20-30% of the sample in revenue terms is missing. However, it said it has no reason to expect that there is any bias.

⁶ [X]

⁷ [X]

⁸ [X]

⁹ [X]

- (b) Regarding the inclusion of post-merger data, the Parties contend that there has not been any change in the extent to which the parties have competed noting that, Cannon's revenue has been growing by 5-10% in 2018.
12. In response to the AIS, Rentokil also explained why it considered the RBB dataset to be a more reliable source of loss data than the Market Questionnaire dataset:
- (a) The RBB dataset covers 75-80% of the value of losses over the relevant period January 2017-June 2018.
- (b) 50-60% of the lost value has been allocated to a competitor, in comparison to just 20-30% in the Market Questionnaire dataset.
13. The Parties said the CMA's analysis of Rentokil loss data has not engaged with 'the large number of unknown' winners' and that, in the Parties' view, 'this constitute a very material gap in the CMA's assessment'.¹⁰
14. We note, however, that Rentokil has told us that the dataset was reliable and 'far more complete' than the Market Questionnaire for reasons described above.¹¹ The RBB dataset identifies a winner for [redacted] of Rentokil's lost business. We also note that, when looking at customers lost by Rentokil in 8 or more regions, the share of unknown is less than 1%.
15. The Parties further submitted that 'the market on a whole is much broader than just those tenders lost by Rentokil'. The Parties stated that a broader set of 'win-loss' data from competitors including PHS, Cathedral and Mayflower is more reflective of the market as a whole.¹² The Parties also said the Rentokil loss analysis is not informative of 'what is happening in the market (eg the extent to which Cathedral and Mayflower have won national contracts from PHS)'.¹³
16. We consider that the business lost by Rentokil reflect the competitive constraints faced by Rentokil from Cannon and from other suppliers.¹⁴ We therefore consider this data to be relevant to the assessment of the competitive effects of this Merger.

¹⁰ [redacted]

¹¹ [redacted]

¹² [redacted]

¹³ [redacted]

¹⁴ Similarly, we consider business lost by Cannon would be relevant, but Cannon was not able to provide such data.

Our provisional view on the appropriate dataset for the analysis

17. The Parties submitted that the RBB dataset covered a higher proportion of lost value, and over a half of the lost value was allocated to a competitor, compared to the Market Questionnaire dataset. We note however the limitations of the RBB dataset regarding absence of data on losses due to renegotiations and the inclusion of post-merger data. Overall, we agree with the Parties that the RBB dataset is more complete than the Market Questionnaire dataset in identifying competitors to which Rentokil has lost. Therefore, our analysis in the remainder of this Appendix is based on the RBB dataset.

CMA assessment of the data

18. In this section, we first assess Rentokil's loss of customers across eight or more regions. We then examine the customers lost by Rentokil to PHS, Cathedral and to Mayflower in further detail. Finally, we consider the analysis submitted by the Parties, which focused on 'large' customer (defined by RBB as customers with an annual spend over £30,000).

Analysis of customers lost in eight or more regions

19. We assess customer losses by Rentokil, where the loss for a customer was incurred in eight or more regions,¹⁵ in order to capture switching of national and multi-regional customers with an estate in multiple regions. We identify a customer using 'premise name', which is used in the RBB dataset to denote a customer name (see discussions from paragraph 31 below regarding identification of a customer).
20. We considered the proportion of business captured by each supplier. The table below presents diversion ratios of customers lost by Rentokil, respectively for all washroom services and for waste disposal only. It can be seen that the majority of the loss was captured by PHS, followed by Cannon and then FMs/Cleaning companies.

¹⁵ We excluded losses self terminated by Rentokil 'due to debt', as these are not genuine losses.

Table 1: Rentokil loss business in eight or more regions

Business lost to supplier:	All washroom services			Waste disposal only		
	Number of customers	Total Revenue Lost	Proportion of total loss	Number of customers	Total Revenue Lost	Proportion of total loss
PHS	[X]	[X]	80-90%	[X]	[X]	80-90%
Cannon	[X]	[X]	10-20%	[X]	[X]	10-20%
FM / Cleaning Company	[X]	[X]	0-5%	[X]	[X]	0-5%
Unknown / Other	[X]	[X]	0-5%	[X]	[X]	0%
Total	[X]	[X]	100%	[X]	[X]	100%

Source: CMA analysis of RBB dataset (2018-08-17 Submission).

Some customers might be counted more than once due to naming anomalies.

The number of customers lost to each supplier does not add up to total because same customer can be lost to multiple competitors.

Customers lost to PHS

21. As can be seen above, the vast majority (80-90%) of the Rentokil losses of national and multi-regional customers were captured by PHS. These include a mix of end customers ([X]) and FM or cleaning companies ([X]).

Customers lost to Cathedral and Mayflower

22. We considered Rentokil customers losses to Cathedral and Mayflower in the data, irrespective of the number of regions in which the loss was incurred, to understand the type of customers captured by these competitors.

Cathedral

23. The RBB dataset identified that Rentokil has lost business relating to [X] customers to Cathedral in [X] individual UK regions, but virtually all of these customers were in a single region.¹⁶ (See Table 2)
24. The largest customer lost was [X] in the North West, accounting for [X] in sales for all washroom services or [X] in waste disposal.

¹⁶ One lost customer was active in two regions, however business was only lost to Cathedral in one of these, other was indicated as Unknown/Other. ([X])

Table 2: Rentokil losses to Cathedral

Region	All Service Lines		Waste Only	
	Number of Customers lost	Total Revenue Lost	Number of Customers lost	Total Revenue Lost
East Midlands	[X]	[X]	[X]	[X]
East of England	[X]	[X]	[X]	[X]
London	[X]	[X]	[X]	[X]
North East	[X]	[X]	[X]	[X]
North West	[X]	[X]	[X]	[X]
Scotland	[X]	[X]	[X]	[X]
South West	[X]	[X]	[X]	[X]
Wales	[X]	[X]	[X]	[X]
West Midlands	[X]	[X]	[X]	[X]
Yorkshire and The Humber	[X]	[X]	[X]	[X]
Total	[X]	[X]	[X]	[X]

Source: CMA analysis of RBB loss dataset (2018-08-17 Submission).
Some customers might be counted more than once due to naming anomalies. One customer is indicated to be lost to Cathedral / Cheaper Waste instead of just Cathedral.

Mayflower

25. The RBB dataset identified [X] customers Rentokil lost to Mayflower, with total revenue of £[X] (see Table 3). The vast majority of these customers were in London.

Table 3: Rentokil losses to Mayflower

Region	All Service Lines		Waste Only	
	Number of Customers lost	Total Revenue Lost	Number of Customers lost	Total Revenue Lost
London	[X]	[X]	[X]	[X]
North West	[X]	[X]	[X]	[X]
South East	[X]	[X]	[X]	[X]
Total	[X]	[X]	[X]	[X]

Source: CMA analysis of RBB loss dataset (2018-08-17 Submission).
Some customers might be counted more than once due to naming anomalies. Two customers in the North West only described as: 'Must give 24 Hours notice', these customers are listed as lost to Mayflower/Time-Out.

The Parties' analysis of 'large customers' lost by Rentokil

Parties' submissions in response to the AIS

26. In the response to the AIS, Rentokil submitted an analysis of Rentokil loss data undertaken by RBB Economics. The analysis considered the diversion ratio from Rentokil to Cannon, as well as to other suppliers, for 'large

customers' (defined by RBB as customers with an annual spend over £30,000).¹⁷ Rentokil found the following results from the analysis: ¹⁸

- (a) Cannon accounts for a low share of lost value (10-20%).
- (b) PHS is by far the most important rival, accounting for 50-60% of Rentokil losses.
- (c) Cathedral represented 0-5% of lost value.
- (d) There are material losses to Healthcare Environmental (5-10) and Mayflower (0-5%).
- (e) FMs also capture a material share of losses (10-20%).
- (f) Self-supply accounts for 0-5% of lost value from across all service lines.

Our assessment of the Parties' response to the AIS

- 27. As explained in Chapter 8 of the Provisional Finding report, we do not consider it appropriate to use customer spend level to identify national and multi-regional customers.
- 28. We consider RBB's analysis but focus on customer losses across multiple regions. In the tables below, we show the value of business lost by Rentokil to each competitor, broken down by the number of regions in which a given customer was lost. We present both the value of the losses (Table 4) and the diversion ratios (Table 5).

¹⁷ The use of a £30,000 cut-off appears to be based on Cannon's definition of 'national customers', and it was used for the purpose of identifying 'large customers' in the Parties' response to the CMA's market questionnaire.

¹⁸ [§<]

Table 4: Rentokil loss business by supplier for large (£30,000+) customers in RBB Dataset, split by number of regions in which a customer loss incurred

Competitor	Value (£) lost, by number of regions in which Rentokil lost business for a given customer										Total per Competitor (£)	Diversion per Competitor (RBB results)
	1	2	3	4	5	8	9	11	12			
PHS	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	50-60%
Cannon	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	10-20%
FMs	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	10-20%
Healthcare Environmental Services Limited	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	5-10%
Self Delivery	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
City Hygiene	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
Mayflower	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
Simply Washrooms Ltd	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
Other	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
Pure Washrooms Ltd	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
Nexus	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
Cathedral Hygiene Services	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
Principal Hygiene Limited	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
B Hygienic Ltd	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
Island Hygiene	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
Greenworks Solutions Ltd	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
Crystal Services Ltd	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
Complete Washroom Solutions Ltd	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
Polar Hygiene	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
S B Hygiene Ltd	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
Chiltern Hygiene Services Ltd	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
South West Hygiene	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
1st Class Hygiene Ltd	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	0-5%
Total	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	100.0%

Source: CMA analysis of RBB loss dataset (2018-09-18 Submission).

Notes:

- The columns '1-12' considers the value (£) of losses of all customers lost in that number of different regions per competitor. The column 'Diversion per Competitor' replicates RBB's results, looking at Diversion Ratios for the entire 'large customer' sample.
- RBB identified 'large customers' with a total value of £30,000 or above in 2016 (before losses occurred). Relates to [30,000] unique contracts.

Table 5: Rentokil loss of large customers (% lost to each competitor), by value

Competitor	% lost to competitor			
	All large customers (RBB Results)	Customer lost in a single region	Customer lost in 2 or more regions	Customer lost in 8 or more regions
PHS	50-60%	30-50%	70-80%	80-90%
Cannon	10-20%	10-20%	10-20%	10-20%
FM	10-20%	10-20%	10-20%	0-5%
Healthcare Environmental Services	5-10%	10-20%	0-5%	0-5%
Self-Delivery	0-5%	5-10%	0-5%	0-5%
City Hygiene	0-5%	5-10%	0-5%	0-5%
Mayflower	0-5%	5-10%	0-5%	0-5%
Simply Washrooms Ltd	0-5%	0-5%	0-5%	0-5%
Other	0-5%	0-5%	0-5%	0-5%
Pure Washrooms Ltd	0-5%	0-5%	0-5%	0-5%
Nexus	0-5%	0-5%	0-5%	0-5%
Cathedral Hygiene Services	0-5%	0-5%	0-5%	0-5%
Principal Hygiene Limited	0-5%	0-5%	0-5%	0-5%
B Hygienic Ltd	0-5%	0-5%	0-5%	0-5%
Island Hygiene	0-5%	0-5%	0-5%	0-5%
Greenworks Solutions Ltd	0-5%	0-5%	0-5%	0-5%
Crystal Services Ltd	0-5%	0-5%	0-5%	0-5%
Complete Washroom Solutions Ltd	0-5%	0-5%	0-5%	0-5%
Polar Hygiene	0-5%	0-5%	0-5%	0-5%
S B Hygiene Ltd	0-5%	0-5%	0-5%	0-5%
Chiltern Hygiene Services Ltd	0-5%	0-5%	0-5%	0-5%
South West Hygiene	0-5%	0-5%	0-5%	0-5%
1st Class Hygiene Ltd	0-5%	0-5%	0-5%	0-5%
Total value of loss (£)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CMA analysis of RBB loss dataset (2018-09-18 Submission).

Notes:

- The column 'All large customers' replicates RBB's results.
- The column 'Customer lost in a single region' considers losses of a given customer incurred in a single region.
- The column 'Customer lost in 2 or more regions' considers losses of a given customer incurred in two or more regions.
- The column 'Customer lost in 8 or more regions' considers losses of a given customer incurred in eight or more regions.
- RBB identified 'large customers' with a total value of £30,000 or above in 2016 (before losses occurred). Relates to [REDACTED] unique contracts.

29. The tables above show that if we considered Rentokil's losses of national or multi-regional customers incurred in eight or more regions, PHS has captured 80-90%, Cannon 10-20%, and FMs 0-5%.^{19, 20} No other competitors have captured lost customers from Rentokil.

¹⁹ [REDACTED]

²⁰ [REDACTED]

30. If we considered Rentokil's losses incurred in two or more regions, PHS has captured 70-80%, Cannon 10-20% and FMs 10-20%.²¹ The losses to other competitors were negligible.²²
31. We also analysed the large customers lost by Rentokil to Cathedral, Mayflower and Healthcare Environmental in further detail. We found that all such losses were in a single region.
- (a) [X] customers were lost to Cathedral, [X] which were in the [X] and one was in the [X] (ie all incurred in a single region).
- (b) [X] customers were lost to Mayflower, incurred either in London ([X] customers) or the [X] ([X]).
- (c) [X] customers were lost to Healthcare Environmental in Scotland and [X] small customer loss in the [X].²³

Parties' supplementary response to the AIS on the Rentokil loss analysis

32. In the Parties' supplementary response to the AIS,²⁴ the Parties provided various comments on the analysis above, summarised as follow:
- (a) The Parties said the variable '[X]' in the RBB dataset is not appropriate for defining customer as a customer may have multiple [X] and this name does not relate to the customer which Rentokil negotiates with. The Parties said this variable, for example, identifies [X] as [X] different customers. They told us that another variable ('[X]') in a separate dataset should be used instead to identify a customer.²⁵
- (b) 'A customer lost by Rentokil in only one region could be present and multi-sourcing in multiple regions'.
33. The Parties provided an updated version of the results, where it defined customers using '[X]', and use the total number of regions the group account was active in rather than the number of regions the loss was incurred for a customer. As a result of these alterations, they estimate that Mayflower has

²¹ [X]
²² [X]
²³ [X]
²⁴ [X]
²⁵ [X]

won 0-5% of Rentokil loss business and Cathedral has won 0-5% (when considering large customers operating in 8 or more regions).

34. On this basis, the Parties concluded that ‘Mayflower and Cathedral have indeed won business from Rentokil for large customers operating in eight or more regions’,²⁶ and that ‘Mayflower and Cathedral are capable of winning contracts for customers in eight or more regions’ even though ‘the losses were mostly in one region’.

Our assessment of the Parties’ supplementary response

35. We found that the ‘[REDACTED]’ variable used in the Parties’ analysis does not necessarily reflect the level at which procurement decisions are made. For example, in relation to frameworks, the ‘[REDACTED]’ variable identifies the framework as a whole as a customer,²⁷ but the RBB dataset reports losses relating to users of frameworks (where these users made independent local procurement decisions). Rentokil did not lose the framework itself to a competitor.
36. We also found that the [REDACTED] variable does not necessarily identify the level at which procurement decision is made. However, in relation to the Parties’ example that the [REDACTED] customer was reported [REDACTED] [REDACTED], we note that 50-60 to 80-90% of the loss value was attributable to the same ‘[REDACTED]’ which was captured as a single customer lost in all 12 regions. Losses relating to all other [REDACTED] are also attributed to [REDACTED].
37. In any event, we consider the Parties’ submissions do not materially impact the CMA’s analysis or the conclusions coming from them for the following reasons:
- (a) In regard to losses to PHS, we note that PHS captures the majority of the Rentokil losses (50-60%) when looking at customers in eight or more regions).
- (b) In regard to losses from Rentokil to Cathedral (0-5%), the Parties said Rentokil lost the customer [REDACTED] to Cathedral in 2 regions.²⁸ We note that [REDACTED] is a private framework and is a current Rentokil customer. The three instances of losses reported in the RBB dataset were losses of individual users procuring under [REDACTED], rather than loss of [REDACTED] as a customer to Cathedral. As noted above, this highlights that [REDACTED] ([REDACTED] in this case) does not necessarily reflect of the level at which procurement decisions are

²⁶ [REDACTED]

²⁷ [REDACTED]

²⁸ [REDACTED]

made. Our view is that these losses are examples of users choosing not to procure from Rentokil under [REDACTED], rather than examples of a customer ([REDACTED]) multi-sourcing geographically.

- (c) Regarding losses from Rentokil to Mayflower (0-5%), we note that the losses relate to the '[REDACTED]' of an FM company [REDACTED] which in turn services [REDACTED]. We note that the Rentokil loss data does not indicate whether or not [REDACTED] multi-source. Outside London, the data reports that [REDACTED] was lost to an 'FM company' in the East Midlands (see below regarding loss to FM companies). We note that [REDACTED] is [REDACTED].
- (d) Regarding losses from Rentokil to FM companies (10-20%), we note that none of these losses relate to end customers procuring directly from Rentokil.²⁹ Instead, these losses relate to '[REDACTED]' which are either FM companies, cleaning companies or framework users.³⁰ Therefore, in our view, the analysis does not inform whether or not end customers procuring directly from Rentokil would consider an FM company as an outside option.

38. We consider losses for '[REDACTED]' in 8 or more regions to other suppliers.

- (a) Losses to Healthcare Environment were only 0-5%.
- (b) Losses to other suppliers (including self-delivery) accounted for 0-10%.³¹ However, the majority (80-90% of 0-10%) relate to users of frameworks or buying groups, or to FM customers, rather than national or multi-regional end customers procuring directly from Rentokil.

²⁹ [REDACTED]
³⁰ [REDACTED]
³¹ [REDACTED]

Summary of supplier and customer responses

Part 1: Supplier responses

1. This section provides details of the evidence received from suppliers, both through telephone calls and questionnaires.
2. In total we gathered information from over 20 suppliers.
3. This appendix includes the views of washroom service providers and the views of facilities management companies (FMs). FMs are both suppliers (often through outsourcing) and customers of washroom services.
4. This appendix is focused around a number of key themes including:
 - (a) Criteria on which customers choose washroom service providers.
 - (b) How washroom services are priced.
 - (c) Whether national customers source from multiple providers across their estate.
 - (d) Whether customers source different washroom service lines from multiple providers.
 - (e) Differences between bin exchange and liner exchange models of sanitary waste disposal.
 - (f) Which providers of washroom services are effective competitors.
 - (g) Whether regional providers compete for national customers.
 - (h) Views on the IWSA.
 - (i) Whether washroom providers compete against FM and cleaning companies.
 - (j) Barriers to entry and expansion.
 - (k) Views on the Merger.

What are the important criteria when customers choose washroom service providers?

5. Suppliers have told us that:
- (a) Service reliability is the key criterion that makes a washroom service provider effective. [X], [X], [X]
 - (b) [X] also told us that the requirements for large and small customers are essentially the same
 - (c) Providers should ensure services are provided as per the agreed frequency. [[X]]
 - (d) A competitive price is also valued by customers. [[X], [X]]
 - (e) Flexibility is essential. [[X]]
 - (f) That aside from a competitive price, the following are valued by customers: brand; coverage; relationships [[X], [X]]; and contract length. [[X]]

How are washroom services priced?

6. Suppliers have told us that:
- (a) Prices are set per service line rather than as a package of multiple washroom services. [[X], [X]].
 - (b) Factors that influence price and may lead to customers getting a better price include the purchase of more service lines, the existence of more sites, and whether purchases fit with a competitor's existing portfolio. Furthermore, we were told that customer density does not influence price. [X]
 - (c) In relation to FMs, three [[X], [X], [X]] said they price washroom services as part of a wider integrated services contract,¹ whilst one [X] said it usually breaks this down into different elements.²

¹ [X]

² [X]

Do national and multi-regional customers source from multiple providers across their estate for a given service?

7. Suppliers of washroom services told us that some customers prefer a single supplier to service across their estate. However, suppliers expressed different opinions about the prevalence of multi-sourcing by national and multi-regional customers.
8. Suppliers have told us that:
 - (a) One supplier said that large customers generally look for a single service provider across the UK. Mayflower. Mayflower added that more customers are now multi-sourcing. A different supplier said that 'equally as many or more' national customers purchase services from multiple suppliers than those who use a single supplier. [[✂]]
 - (b) Furthermore, a supplier Cathedral told us that it employs a [[✂]]
 - (c) PHS told us:
 - (i) Its customers do not tend to purchase all of its 12 service lines. Some customers may use other suppliers for certain service lines and many customers will not purchase certain service lines at all – although the majority of washrooms will have sanitary disposal, an air freshener, and a hand drying facility. The service lines purchased may depend on the nature of the customer. The vast majority of national account customers take a waste disposal service and may not purchase the same service lines in each location, although typically they will usually take sanitary and/or nappy waste disposal services.³
 - (ii) National customers tend to buy a number of service lines (✂) service lines from PHS, and this invariably includes sanitary waste as a lead product. Smaller customers generally buy fewer service lines
 - (iii) End-customers who have a national presence almost always prefer to deal with one national service provider because a national operator: is able to handle their national service requirements; provides convenience (single point of contact for account management, invoicing, management information, etc.); and consistent service quality and look/feel to their washrooms across their sites (Marston's or Costa Coffee). These customers often have a sophisticated and centralised procurement function.

- (iv) According to PHS, certain mid-tier customers are also becoming more sophisticated and are demanding services from a single supplier
- (v) Legacy issues or a desire not to rely on a sole supplier could partly explain multi-sourcing for certain customers. Early termination penalties for contracts, and general difficulty in switching mean that companies might stick to incumbent service providers at some sites.
- (vi) Multi-sourcing is higher in companies who run franchises, since individual franchisees generally get to decide their washroom service providers for the sites they run. However, in PHS's experience, franchise chains usually have a preferred/suggested washroom service provider which most franchisees use.
- (vii) PHS stated that they are only aware of a very small number of national customers (like Marks & Spencer who are served by Mayflower and Nando's who multi-source across service lines) that have chosen to single-source from one of the big three national washroom specialists.⁴ PHS said that it does not know the reasons for these customers' decisions.

Do customers source different washroom service lines from multiple providers?

9. We were told by suppliers that:
- (a) Using multiple suppliers is an everyday occurrence and many customers that take a small proportion of services use competitors for other product lines. (Cathedral). Furthermore that, it can be 'more efficient to have more than one service line at a customer's site'. [Cathedral]
 - (b) [X] told us National customers tend to buy multiple service lines from its business, and this invariably includes sanitary waste disposal as a lead service. Smaller customers generally buy fewer service lines

Differences between bin exchange and liner exchange models of sanitary waste disposal

10. One supplier told us that liner exchange and bin exchange have similar costs, and both methods are easy for any supplier to do. It also noted that 'many

⁴ X

businesses choose not to have sanitary bins or go for an alternative method'.
[Cathedral]

11. Another supplier told us that customers tend not to prefer either bin exchange or liner exchange. It estimated that liner exchange represents half of the UK supply, and is cheaper than bin exchange as bins take up space in a van.
[Mayflower]
12. Regarding on-site-servicing PHS said it primarily follows the bin-exchange model in sanitary waste disposal, and has been following this method for a long time. It provides this service as it believes it offers a more hygienic solution and is safer due to the risk of needle injury. PHS also undertakes some liner exchange services where the customer specifically requests it, but only a small number of customers appear to prefer the latter. PHS added:
 - (a) The traditional way it supplies sanitary waste disposal is to exchange the bins with clean/empty bins, remove the existing bins, clean them off-site and then return them to the washroom. The alternative model of liner exchange has been around for a long time. However PHS noted that it has not seen any change in customer demand for the liner exchange service. Moreover, PHS considered bin exchange to be more hygienic, safer and a better customer experience. It also commented that it was Cannon's policy to deliver this service in this way.
 - (b) Customer preference between these two methods depends on customer's attitude towards hygiene as liner services will leave a bin in place which has not been machine washed. It also depends on whether customers have a preference for either bins or bags being carried in to/out of their locations. PHS added that there is little difference in the cost to provide either service. The bin-exchange model means the bins are exchanged and machine washed off customer premises, while the liner exchange model can be less time efficient because staff need to spend more time on site to clean the bins. It added that the cost of delivering a liner service will be less if the service provider does not wash the bin on each visit. PHS noted that it does not differentiate on price to customers choosing either method. PHS has not yet considered different prices for these services because it supplies very little of the liner service, given the lack of customer demand. It always recommends bin exchange services as it believes it offers a more hygienic solution.⁵

13. [X] One supplier identified 'do bag lifts' as a weakness of two other competitors, namely Cathedral and Co-an (a provider in Scotland and North of England).⁶
14. [X] One supplier commented that it mainly follows liner-exchange method of waste disposal since it is easier.

Which providers of washroom services are effective competitors?

15. Suppliers expressed different views on which suppliers are effective providers for national customers.
16. One supplier said that many national accounts are supplied by companies other than PHS, Rentokil or Cannon. It identified over 160 other suppliers, of which it considered 16 washroom specialists and FMs to be 'of a significant size' (other than PHS and the Parties) but did not specify if these companies serve national customers. It provided examples of its national customers: one company that has 300 plus sites and another that has 100 plus sites. However, the supplier said it is not able to extract records of competitive interactions with the Parties (eg customers lost to or won from the Parties).
[Cathedral]
17. Cathedral also told us:
 - (a) Cannon UK is a competitor in the washrooms sector, but is not in a financially strong position. Cathedral also told us that PHS had expanded through acquisition.
 - (b) The sector is competitive and there is competition for every contract.
 - (c) Growth has been achieved in proportion with national and non-national accounts.⁷
 - (d) It has grown faster than the industry ⁸
 - (e) Other providers should be considered outside the traditional washroom service suppliers and there are customers who self service, have no services or use an alternative provider such as their cleaners to service their requirements. ⁹
 - (f) Many multi-site customers, especially those who do not have central procurement departments, procure washroom services locally. Furthermore,

⁶ [X]

⁷ [X]

⁸ [X]

⁹ [X]

that although franchises have different policies on washroom procurement, it is common for individual franchises to procure washroom services locally since local managers may be more aware of price and quality offered by regional service providers, which seems to be the case for [X].

- (g) Although there are legal requirements to have sanitary bins, this may not be followed by all businesses.
- (h) It believes that Cannon Hygiene UK with its current model of multiple service depots is not sustainable.

18. PHS told us:

- (a) The market has grown over the last six years and that it generally follows GDP. Competitive pressure has, in its view, grown somewhat over the last five years or so, partly due to facilities management customers building greater buyer power by consolidating their position. Furthermore that smaller companies purchasing on a regional or local basis tend to have less buyer power.
- (b) Sanitary disposal and nappy disposal is carried out by washroom services providers, but PHS said that other products may be supplied by a wider range of suppliers e.g. air freshening can be self-supplied and soap may be provided by cleaning companies. PHS therefore has a lower share of the market for service lines other than sanitary and nappy disposal. However, in PHS's view, it is easy for a customer to purchase these other service lines from PHS and it is able to supply additional service lines to customers efficiently as the incremental cost is low.
- (c) In relation to sanitary and nappy disposal, PHS said that it considers only Rentokil Initial and Cannon Hygiene as serious competitors for national accounts. Other competitors were rarely seen.
- (d) In order to serve national customers, PHS told us it is essential to understand how customers' central procurement teams work, and to be able to handle complex contractual negotiations which are then applied nationally. It is also critical to be able to offer a high and consistent standard of operational national service delivery and on an ad hoc or scheduled basis and provide a customer service, account management and IT capability nationally. PHS noted that the customer journey for single site or localised customers is different. In particular, local and smaller competitors are able to compete more effectively at this level.

- (e) PHS identified only two 'fully effective national competitors' – Rentokil Initial and Cannon Hygiene, adding that of the remaining larger washroom service providers, even Cathedral and Mayflower are 'pretty small' in comparison to the much larger three, and are rarely mentioned by the larger customers which PHS interacts with. It does not consider them as competitors for national accounts.
 - (f) PHS noted that the three national players are differentiated from the rest by:
 - (i) Their national depot and vehicle infrastructure which allows national providers to provide a consistent level of service on a scheduled and ad hoc basis to a large number of customer locations
 - (ii) the ability to handle national account management needs including the provision of bespoke management data and information
 - (iii) The ability to provide a national customer service (call centre) organisation
 - (iv) The ability to handle more complex procurement processes which might include rebates, penalties and service credits
 - (v) National IT systems/capabilities.
 - (g) PHS added that in theory, the smaller service providers can become effective competitors to PHS if they expand into new regions, set up large service networks, and increase spend on IT and account management – but this transition has not been seen for many years in practice and, in their view would take a number of years and significant financial investment¹⁰
19. We were told by another supplier that it often encounters the same large competitors. It told us that it competes in tenders for national customers around four to six times per month. Specifically: it 'almost always' encounters PHS; Rentokil in c.20% of the times, Cannon in c.10% of the times; and 'almost never' sees Cathedral. [Mayflower]
20. Furthermore, it also told us that it is very strong in retail, contract cleaning, FM, and education, but not in healthcare as it does not provide healthcare waste collection [Mayflower]

¹⁰ X.

21. Mayflower also told us that considering only Rentokil, Cannon and PHS as the major players was an outdated view of the market.
22. It also told that it does not have the same centralised sales force but it targets similar customers as national companies;¹¹
23. Another supplier said that it has a national presence for its existing business, but national coverage for washroom services is achieved by outsourcing to a large supplier and smaller companies in a number of areas. Berendsen/Elis This large supplier also told us that it does not compete in tenders, public sector contracts or framework agreements, because it outsources to PHS and end-users would want to deal directly with the service provider.
24. We were told by one supplier that many public framework agreements have been declining, as schools and councils can increasingly purchase washroom services independently. [Mayflower]
25. Mayflower also told us:
 - (a) It is not aware of the effects on competition of Elis' acquisition of Berendsen. Currently, Berendsen is predominantly a provider of laundry services and it usually outsources washroom services to PHS.
 - (b) Mayflower also said that the the changing market condition (like the falling exchange rate), bigger FMs, and European companies are investing in washroom services providers in the UK
 - (c) Mayflower told us that the market appetite for acquisitions has considerably lessened and this has made the market more competitive. This reduction in buying spree will help smaller players like Mayflower to expand. ¹²
26. Berendsen said washroom services are an add-on to its core business. It has been acquired by Elis, an international group offering textile, hygiene and facility services.¹³ This supplier has a national presence for its existing business, but national coverage for washroom services is achieved by outsourcing to PHS and 14 smaller companies in different areas. Specifically:

¹¹ ✕

¹² ✕

¹³ ✕

- (a) It has few customers where it provides washroom services without an associated core service.
- (b) [X]
- (c) It does not compete in tenders, public sector contracts or framework agreements, because it outsources to PHS and end-users would want to deal directly with the service provider.¹⁴
- (d) It was not able to identify contracts won from or lost to the Parties.

27. Some regional providers said they do not, or rarely, compete in public sector contracts or framework agreements:

- (a) [X] (supplying to home counties and London) said it has only gained one substantial account from Rentokil, because it is 'very difficult to win based on a low pricing policy of national companies'.¹⁵ It does not compete in public sector contracts or framework agreements.¹⁶
- (b) [X] said it rarely won in tenders or public-sector contracts for which the Parties and PHS are the strongest competitors.¹⁷

28. Several regional suppliers said they compete with larger suppliers by offering better services to local customers:

- (a) [X] told us that its advantages (over national competitors) is 'a more personal service with a stable workforce which provides continuity for the customer', and 'lower overheads and can therefore usually be price competitive'.¹⁸
- (b) [X] told us that it only quotes on a quality service, whilst 'large national or multi regional companies generally tender purely on price, not quality of service delivery'.¹⁹ It has quoted against Rentokil 'on a number of occasions' but has not come across Cannon much.²⁰
- (c) [X] said its USP (unique selling proposition) is flexibility and quality, not price. It recently lost a customer in the North East to Rentokil on price. It said Initial undercut the company by two thirds.

¹⁴ [X]
¹⁵ [X]
¹⁶ [X]
¹⁷ [X]
¹⁸ [X]
¹⁹ [X]
²⁰ [X]

- (d) [X] said 'small independent washroom companies struggle against the nationals on price', as the market become less service driven. It lost a single-site customer to Rentokil.
- (e) [X] told us that it has 'a good service name' and 'with a competitive price, we can compete'.²¹

Further views

- (a) [X] – a healthcare waste company told us that waste disposal was a small part of its business that it outsources to a washroom specialist.
 - (b) [X] – a waste collection company said it is a disposal outlet to the companies that supply washroom services, rather than a supplier of washroom services to customers.
29. Table 1 below summarises the main suppliers identified by companies that responded to our questionnaires.

Table 1: Suppliers identified by washroom service providers who responded to the CMA

Responding supplier	Provider type	Suppliers identified by the company			
		PHS	Rentokil	Cannon	Others
PHS	National washroom specialist	N/A	√	√	Cathedral and Mayflower for regional customers; Pure in public tenders
[X]	National washroom specialist	√	√	√	160 competitors of which 16 (other than PHS and the Parties) are of a significant size
[X]	National washroom specialist	√	√ (1 in 5 tenders)	√ (1 in 10 tenders)	
[X]	provider with washroom services as an add-on to core business	Berendsen outsources to PHS	√	√	Local competitors (for regional or local areas)
[X]	Regional washroom specialist (Scotland and North of England)	√	√	√	
[X]	Regional washroom specialist (Home Counties and London)	√	√	√	Cathedral; Zenith
[X]	Regional washroom specialist (North East and Yorkshire)	√	√		Shorrock Trichem
[X]	Provider of washroom and clinical waste services	√	√	√	
[X]	Regional washroom specialist (North of England)	√	√		Cathedral (National/Midlands); Co-an (Scotland)
[X]	Regional washroom specialist (Midlands)	√	√	√	Cathedral; Prestige Hygiene (both considered regional)
[X]	Regional washroom specialist (Central belt of Scotland)	√	√		Cathedral; Greenleaf; Caledonia
[X]	Regional washroom specialist (South East)	√			Local operators; Nationwide Hygiene
[X]	Regional washroom specialist (North East and Yorkshire)	√	√		Shorrock Trichem

Can regional providers compete for national customers?

30. To serve customers in multiple regions, regional providers said they either have to sub-contract to other providers or they can only serve few sites.

(a) Berendsen/Elis One supplier which is primarily active outside washrooms and which supplies across the UK, identified 10 multi-regional or national customers to which it supplies washroom services. These customers typically have fewer than 25 sites each.

(b) Another competitor said there is more national competition recently through collaborations between regional providers using the IWSA. [Mayflower]

- (c) [X] said it covers home counties and London from its base in [X], but it serves two customers respectively with 20 and 30 sites around the UK.
- (d) [X] is active in the North East and Yorkshire and said it does not have the physical coverage to supply national contracts.²²
- (e) X said it would have to find sub-contractors in areas that it does not cover to serve national or multi-regional customers.²³
- (f) X told us that it only supplies washroom services in the South East,²⁴ Furthermore that it outsources waste disposal to [X]
- (g) Northern Counties Cleaning supplies washroom services in the North of England, but it outsources its services across the UK (as a member of IWSA). It cites franchises such as [X] as examples of its bigger customers.²⁵
- (h) [X] said it is hard to offer a national service.²⁶ It also told us that that it is a small family business and it is hard for [X] to offer a national service as it does not have the personnel.
- (i) [X] told us that large nationals will be able to offer cheap services and then fail to deliver on service. [X] told us that it will only quote on quality service and will not compete on price and therefore restricts itself to markets that will pay a fair price to ensure the service is delivered.²⁷

The role of the Independent Washroom Services Association (IWSA)

31. IWSA has 35 members which subcontract washroom services to other IWSA members in confidence that the service levels will be similar.
32. IWSA has service level agreements with its members to ensure consistent service quality. IWSA members have coverage in all major cities, but some regions like Wales and Northern Scotland may have limited coverage. IWSA members also bid for national contracts. An example of a national customer that purchases washroom services from South West Hygiene (and through IWSA) is [X]. Another example of a national contract is [X], which was recently won by an IWSA member from Essex. It told us it has recently won a 'very large contract'.

22 X
 23 X
 24 X
 25 X
 26 X
 27 X

33. IWSA noted that the biggest problem while bidding for national contracts is getting [redacted] for the large contracts like [redacted]. This is because sometimes [redacted][redacted]. It is noted that [redacted] did not tender for the [redacted] in the end due to this problem.
34. IWSA said [redacted]. However, IWSA members may [redacted]. [redacted] was referenced as an example of a national customer that members of the IWSA were unable to win because the members could not service as cheaply as [redacted] were already purchasing services at.
35. IWSA told us that [redacted].
36. Regional providers said they have collaborated with others under IWSA before.
- (a) Mayflower said there is more national competition recently through collaborations between regional providers using the IWSA.²⁸
- (b) [redacted] is a member of the IWSA and said it can 'easily offer services elsewhere in the UK using its other members'.²⁹
- (c) [redacted] told us it does not like to sub-contract out its work, and only ever sub-contract to IWSA members.
37. PHS told us:
- (a) IWSA is a trade body, and it does not have the capability to serve truly national customers.
- (b) Federation models do not generally work since it is difficult to coordinate. The following service requirements across a large group of regional or local service providers were identified:
- (i) Consistent national service levels and services delivered in a consistent manner which meets customers' demands ;
- (ii) National account management needs such as which entity invoices the customer, how to handle service credits; National IT and data requirements;
- (iii) PHS added that it is very important for certain multi-site national customers to have the same look and feel, e.g. products and service, across their washrooms, and it would be very difficult for IWSA to fulfil

²⁸ [redacted]

²⁹ [redacted]

this requirement for a large national customer with multiple locations across many different regions.³⁰

Do washroom providers compete against FM and cleaning companies?

38. Whilst one FM [X], told us it would be possible to self-deliver waste disposal in hospitals where it also removes clinical waste, many washroom specialists told us that they do not compete with FM and cleaning companies.

(a) [X] told us it cannot self deliver waste disposal in hospitals, it sub-contracts this service to waste management companies

(b) One supplier said that FMs are super-contractors who pull services (eg cleaning, consumables, security, washrooms, grounds maintenance) together in a total FM package, and FMs typically outsource cleaning, consumables (often to [X]) and washroom services. [Mayflower]

(c) PHS told us site based FM and cleaning companies cannot provide sanitary waste disposal services easily/efficiently/legally themselves because sanitary waste disposal requires vehicles, drivers, off site washing facilities and a license which FMs do not have. E.g. Cannon has the licenses whereas its parent group OCS (a site based FM business) does not.

It added that site based FMs traditionally do not provide washroom services since they face economic (cost of operating route-based networks) and regulatory obstacles (license to handle and dispose waste at the sites). PHS considered that the former is a bigger constraint on FMs. PHS also said that site based FM businesses also lack the organisational skill-set to run a logistics business.³¹

(d) We were told by a supplier that it is 'very rare' for customers to be won or lost to FMs or cleaning companies'. Berendsen

(e) Another supplier, [X] noted that it had not won contracts from non-washroom companies.

(f) [X] said its customers are 'too small for FM companies' apart from framework tenders.³²

³⁰ X

³¹ X

³² X

39. Some other washroom specialists identified some competitive interactions with FMs:
- (a) One supplier said that FM and cleaning companies are regularly winning contracts for the provision of washroom services. It said customers using FMs are less likely to multi-source product lines from different suppliers. [Cathedral]
 - (b) [X] that it lost around 10% of business to FM and cleaning companies, as these providers drive prices down and work from very low margins.³³
 - (c) [X] has lost customers to FMs, and said nationwide FMs have sub-contractor deals with Cannon, Rentokil and PHS. It has won customers from local cleaning companies.³⁴
 - (d) [X] told us that it would use a core clinical waste supplier directly and use their services to collect sanitary waste if volumes were sufficient for them to collect waste, but does not have the ability to transport or treat waste themselves.³⁵
40. FMs told us they do not compete directly with washroom specialists in general. [[X], [X], [X], [X]] They said:
- (a) Washroom services are a small portion of their businesses, representing between 1%-5% (or less) of revenue for [X], [X], [X] and [X].³⁶ ISS further told us that the value of washroom services account for around 3-5% of a cleaning contract.
 - (b) Their customers do not buy washroom services as a stand-alone service, but instead, as part of a cleaning contract or an integrated FM contract. [[X], [X], [X], [X]]. The proportions of customers using washroom services as part of an FM package vary from 25% ([X]) to 75% ([X]) to 100% ([X]).
 - (c) Furthermore, [X] told us that the customers it works with are primarily the government. As a result they expect a complete FM solution as they want a single vendor to be accountable for the operation of the facility.³⁷
 - (d) FMs rarely or do not compete for stand-alone washroom services tenders. All FMs responding to our questionnaire [[X], [X], [X], [X], [X]]

33 X
 34 X
 35 X
 36 X
 37 X

indicated that they tender for washroom services in a package with other services and that they never bid for framework agreements.³⁸

- (e) It is common for customers to start using FM for a range of services including washroom services, but not to use FM for washroom services and other services separately [[X] [X], [X]].
- (f) Their customers include washroom services in their FM package because they prefer to concentrate on their core business [[X], [X], [X], [X]], and to reduce management and administration time by using a one-stop-shop approach [[X]/[X]]. Serco also commented that its customers (primarily the government) prefer to deal with a single supplier to be accountable for the operation of the facility and [X] would then undertake the subcontracting of the specialist washroom services to an appropriate supplier.³⁹
- (g) Where an FM outsources washroom services to another provider, customers of FMs typically use the washroom services provider preferred by the FM. [[X]/[X]], but it can vary depending on customers' requirements [[X]].
- (h) [X] told us that it provides washroom services as an add-on service. It does not participate in stand alone washroom tenders.
- (i) [X] told us that washrooms make up a 'minimal' (around 1%) share of its FM business. [X] has not fully considered self-supplying sanitary waste disposal, and believes it might involve additional costs to provide waste disposal in non-hospital sites.
- (j) Four large FMs ([X], [X], [X], [X]) told us they do not have the ability to self-deliver waste disposal, which would require a license and audit trail documentation for transfer and disposal of waste.
- (k) Four large FMs ([X], [X], [X], [X]) said they would not have the incentive to self-deliver waste disposal, since it is more efficient to outsource.

41. Table 2 below summarises the washroom services outsourced and supplied internally for the FM suppliers who responded to our questionnaire.

³⁸ [X]

³⁹ [X]

Table 2: FM preferences for outsourcing

FM company	FH waste disposal	Nappy waste disposal	Air fresheners	Other washroom services	Outsourced to
[X]	Outsourced	Outsourced	Outsourced	Outsourced	PHS
[X]	Outsourced	N/A	N/A	Outsourced	PHS, Rentokil
[X]	Outsourced	Outsourced	Outsourced	Outsourced	Cannon
[X]	Outsourced	Outsourced	Supplied internally	Supplied internally	Mainly PHS
[X]	Outsourced	Outsourced	Outsourced	Outsourced	Mainly PHS, also use Complete
[X]	Outsourced		Outsourced	Consumables procured directly; hand dryer outsourced	Rentokil, Cannon
[X]	Outsourced		Outsourced	Outsourced	Mainly PHS

Source: CMA competitors' questionnaire (phase 2), question 9

42. [X] said it has not won or lost customers against the Parties, but it considered PHS to be its main competitor.⁴⁰

Other types of supplier

43. [X] said it distributes cleaning consumables to Rentokil but does not offer washroom services.⁴¹
44. [X] said it is 'a manufacturer of washroom products but do not offer services to our customers'.⁴²

How easy is it for customers to switch providers?

45. FMs told us that their customers do not switch from washroom specialists to FMs for washroom services in isolation.⁴³ [[X], [X]]. [X] further elaborated

⁴⁰ [X]

⁴¹ [X]

⁴² [X]

⁴³ [X]

that switching from a washroom specialist to an FM would only happen if the customer is 'moving to an outsourced FM model'.

46. [[redacted]] commented that a difficulty can be waiting for prospective customers to finish existing contracts with their current washroom provider due to multiyear contracts most providers use.

47. [redacted]⁴⁴

Barriers to entry and expansion

48. Several suppliers said that entry is plausible locally or regionally, as is expansion to another region, but entry nationally is difficult. We were told that entry or expansion typically took place by acquisition.

49. One supplier said that the barriers to entry are low. It identified Principal Hygiene as an entrant and [redacted] as an example of an FM that has developed its own washroom specialist service. It also noted that [redacted], a [redacted] laundry company, recently purchased United Services, a regional washroom service company in West Sussex. [[redacted]]

50. [[redacted]] told us that barriers to entry and expansion in the sector are low.

51. [[redacted]] said that it had expanded in recent years and had some capacity to serve new customers.

52. In [[redacted]] view, it is not necessary to have a national network of depots in order to supply washroom customers nationally. Drivers and vans are, in its view, able to operate without needing to visit a depot. In relation to waste disposal services, [[redacted]] said that there are a number of methods for disposing of waste.

53. [[redacted]] I added that it supplies customers across the UK from its depots without sub-contracting, save for one region and a very limited number of post codes elsewhere. [[redacted]] I also said that it has a waste transfer station in Castleford.

54. [[redacted]] also said that there are other washroom suppliers in addition to Rentokil, Cannon, PHS and [[redacted]] which have national accounts. [[redacted]] also provided an example of a washroom specialist in the South East which supplied a national customer by using sub-contractors.⁴⁵

55. Mayflower Another supplier said the barriers to enter in a region are surmountable. Entry can be achieved, in its view, by acquisition or setting up

⁴⁴ [redacted]

⁴⁵ [redacted]

a new depot. For example, Mayflower added depots to deliver to clients in other regions of the UK, and it is setting up a sixth depot in the East Midlands. However, it identified insufficient business as an inherent risk of expansion into other regions. It is not aware of entry of a national provider.

56. PHS said that supplying waste disposal was more complicated than other service lines, particularly when servicing national customers. As a consequence it considered that barriers to entry are higher in waste disposal than in other service lines. It added:
- (a) In order to supply supply waste disposal at scale, PHS told us that it is often necessary to bulk up waste at a depot before it is disposed of, but doing so requires a licensed waste transfer station. It added that in urban areas, it could be more difficult to obtain a licence, especially in comparison with more rural areas. For bin exchange, it noted that it is also necessary to have a depot with bin washing facilities. It added that finding an appropriate site, obtaining a licence and putting in place the necessary infrastructure may take 18 months or more. PHS noted that it would take much longer and require very significant investment to build a national infrastructure.
 - (b) To supply effectively across the UK, PHS stated that is necessary to have around 15-20 service locations , a large vehicle fleet and a national pool of staff in order to reach most of the UK population efficiently. PHS considered that this is not feasible for a new entrant to supply only national customers.
 - (c) PHS stated that it is not aware of facilities management companies supplying sanitary waste and nappy disposal. Instead, they sub-contract to washroom specialislists, largely to Rentokil Initial, Cannon or themselves.
 - (d) In PHS's view, site-based facilities management companies which supply a range of services at a customer's site are distinct from route-based facilities management companies which operate depots with a fleet of vans servicing customers at many different locations. PHS does not consider that site-based facilities management companies have the capability or desire to provide washroom services, particularly waste disposal services, as they cannot do this economically or effectively.
 - (e) PHS is not aware of any waste disposal companies not currently serving washrooms that would enter the supply of washroom services. PHS stated that Berendsen is not currently considered a player in the UK washroom services market.

- (f) PHS said that it would be risky for a regional supplier to invest in the necessary infrastructure to provide services nationally as it may not subsequently win any national contracts, particularly given that many national customers have existing three to five year contracts with Rentokil Initial, Cannon or PHS. Customers may also be concerned about the risk of a fall in service quality if they switch to a supplier with little or no experience in dealing with large national customers. In PHS's experience, large national customers require proof from a supplier in the form of another customer reference account in a similar sector before considering that a supplier is competent to handle their needs. Relationships with customers are also important.
- (g) PHS observed that Cathedral and Mayflower have not broken through into the same realms as Rentokil Initial, Cannon and PHS in terms of national supply, despite being in the market for many years.
- (h) PHS told us, it is 'relatively easy' to setup in a very tightly defined locality and added it is significantly more difficult to expand nationally. PHS is not aware of local or regional players becoming a creditable national provider for many years. PHS noted that 'scaling up' requires significant investment in a National Infrastructure, Vehicles, Business processes, IT systems and Sales and Account management capabilities.
- (i) PHS added that expanding nationally would be a very long process, as it can take up to 2 years to identify the right site for a single new branch, lease it and get the required license. In order to provide a national service PHS believes an entrant would need in excess of 15-20 such sites/locations. PHS considered that the investment would need to be made in advance of having the customers requiring national service because it deemed it unlikely that customers would sign contracts with an unproven supplier.
- (j) PHS believe that site based FMs will be unable to compete effectively with it since it requires experience and expertise in setting-up a route-based service business while the FM business model is site-based. PHS stated that FMs do not have the 'organisational experience' to handle customers' requiring a route based service supported by a national depot infrastructure and vehicles (eg ad hoc or scheduled waste collection, complying with regulations, driver training, vehicle fleet management and OSS/bin-exchange preference etc.).⁴⁶

- (k) PHS stated that it may be easier for healthcare waste providers to enter the sanitary waste disposal market. However, PHS said that it is only aware of one, Healthcare Environmental Services, having tried to do so. It noted, however, that HES has not been successful in winning contracts and that PHS does not consider it a serious competitor for sanitary waste disposal.
57. Regional supplier expressed mixed opinions about ease of entry. On the one hand, four of them said entry in a region is easy:
- (a) [redacted] said 'it is relatively easy to start a company', the main barrier being 'managing cash flow and generating income while waiting for prospective customers to finish existing contracts with their current washroom provider.'⁴⁷
 - (b) [redacted] said entry in one region 'is very easy as there are several choices'.
 - (c) [redacted] said entry is 'easy generally' due to poor quality of service provided by Rentokil and PHS.
 - (d) [redacted] said that entry in one region is relatively easy.⁴⁸ However, expanding nationally may require 'significant infrastructure' meaning that initial start-up' may be difficult.⁴⁹
58. On the other hand, several other providers pointed out difficulties as follows:
- (a) [redacted] told us that entry in a region is 'somewhat difficult'.
 - (b) [redacted] said the market is 'heavily saturated' and is difficult for any new supplier to start, since 'core services such as sanitary disposal are not profitable'.⁵⁰
 - (c) [redacted] said it is difficult for a start-up business due to the capital requirement to grow.
 - (d) [redacted] said entry costs for public sector purchasing arrangements, universities and other large customers would be 'massive for a relatively small return', due to cash required (or borrowing over 4-5 years) to buy the equipment and short contract terms.

⁴⁷ [redacted]

⁴⁸ [redacted]

⁴⁹ [redacted]

⁵⁰ [redacted]

(e) [X] said it 'can be extremely hard' for a new supplier because 'all business is on contract and the bigger named companies generally can charge really cheap to keep the independents out'.⁵¹ It opened its [X] site for [X] in 2017.⁵²

(f) [X] said that entry in one region is relatively difficult for a start up business due to the capital requirement to grow,⁵³

59. Berendsen A further supplier identified the following requirements for a new start-up:

(a) Waste transfer licenses and a disposal service for transporting sanitary waste.

(b) Installers for equipment and smaller vans to service customers.

(c) Capital to purchase washroom equipment.

(d) Premises (fairly modest) with some means of cleaning sanitary bins.

(e) Acquiring the density of customers required to make a viable business would take time.

60. Berendsen [X]

61. [X] noted that it does not believe there are huge barriers to entry and expansion but it does not have complete knowledge of the market yet.

62. [X] noted that while entry can be quite easy, expansion can be difficult because of financing requirements.

Views on the Merger

63. Several suppliers expressed concerns that the merger would reduce competition and choice of customers, especially national customers.

64. Some other suppliers said that they are concerned that the Merger would strengthen the parties and potentially undermine smaller providers. ([X], [X], [X])

65. PHS said that at the national level, one fewer competitor would result in two players providing washroom services and this could affect prices. At a local

⁵¹ [X]

⁵² [X]

⁵³ [X]

level, however, PHS said that local players have been gaining market share. It added:

- (a) This Merger reduces choice (from 3 to 2) for national customers.
 - (b) Smaller suppliers did not have depots across the UK and it would be costly for these suppliers to service these customers. Local suppliers could not service regional customers effectively as it was uneconomic for them to supply larger geographic areas. In these regions, choice would be reduced from 3 to 2.
 - (c) This merger will not reduce competition for most local customers because there are many smaller local suppliers in most areas of the UK.
 - (d) The merged Rentokil-Cannon entity is likely to experience synergies which reduce unit costs. These synergies can arise through optimisation of overheads, fleet, driver and branch optimisation and operational density improvements (cost-per-visit falls as number of sites served increases). PHS stated that in its experience it is unlikely that the benefits of these synergies will be passed to customers in lower pricing.
 - (e) It could envisage upsides and downsides from this merger for PHS. On the one hand, the merger may present competitive challenges as the merged entity could be a stronger competitor if it takes the best attributes of Rentokil Initial and Cannon Hygiene. On the other hand and, in its view more likely, PHS felt competition would be reduced because there would just be one other national supplier which it would be competing against, as opposed to two [X].⁵⁴
66. One supplier said that the merging parties will be able to 'share customer information previously unavailable to them and this could strengthen their combined efforts to impact on the number one position as well as the many smaller providers'. Berendsen
67. [X] said the merger 'will create a pricing war between PHS and force smaller companies [...] to reduce or pull out of the market'.⁵⁵
68. [X] submitted that the merger 'will reduce the competition in the market for true national players', by allowing the Parties 'to buy direct from source at an improved rate', which would 'put pressure on their competitors to look at other ways of getting cheaper in order to remain competitive'.⁵⁶

⁵⁴ [X].

⁵⁵ [X].

⁵⁶ [X].

69. [X] contended that the merged entity will be 'a force against PHS' and 'leave generally two nationwide companies' which 'would compete against each other solely based on lowest price'. [X] further suggested that the merger 'can force regional independents out of business' as 'councils/hospitals FM/ etc only deal with the nationals, due to price and whole nation'.⁵⁷
70. [X] said the merger would be 'bad for consumers as pricing will be affected' and the Parties 'will be the largest and most powerful in the UK'.⁵⁸
71. [X] said the merger 'will reduce competition' and 'business choice', although it 'probably takes more off [Rentokil] in value than [Rentokil] take off us', and 'Cannon are not major competitors'.
72. [X] told us:
- (a) It uses the merging parties in order to deliver to its client needs, so a reduction in the number does not help its customer base. [X] stated that had there just been two suppliers It does not think its process would have delivered such a competitive outcome
 - (b) [X] considered that the merger would lead to less competition, stagnation of the market; increased costs; less innovations; poorer performance.
73. However, many other suppliers told us that the supply of washroom services is sufficiently competitive and are not concerned about the merger:
- (a) [[X]] told us that 'the market is competitive on both a national and regional level' and that and that there will be more than "two effective national suppliers" post-merger.
 - (b) Mayflower said there are enough players to offer choice to national customers, and service levels will not falter. Moreover, the merger might induce entry by ex-employees of the Parties setting up their own businesses.⁵⁹ It added that it did not see any negative impact of the merger on the market. It said that the procurement of washroom services is changing and that more regional players and new entrants are being seen.⁶⁰
 - (c) [X] believed the merger will not have any significant effect for the 'national market'. It told us that only PHS (by a long way) can provide full national coverage, and the merger may provide an alternative.

⁵⁷ X

⁵⁸ X

⁵⁹ X

⁶⁰ X

- (d) Both [X], a regional provider covering the Midlands and the South of England, stated on their websites that their ‘business has grown on delivering a quality service and many of its customers have moved to us after being let down by one of the big nationals’. They said the merger ‘may even boost the independent sector’.⁶¹
- (e) [X] said that it does not consider the merger will impact negatively on the market as there are other providers that operate both on a regional and national basis.⁶²
- (f) [X] said the combined entity ‘is not that significant in terms of the total UK Washroom market’ and ‘there are many local washroom players who compete successfully on a regional level’.
- (g) [X] indicated it was not concerned about the merger but it did not comment further.
- (h) [X] commented that in short run Initial and Cannon will struggle if they merge since it will cause disruption to service and clients. In the long- run, Initial’s management will adapt and the merged parties will be a threat to regional businesses.
- (i) [X] commented that the Merger would drive down prices.
- (j) [X] said that Rentokil and PHS participated in public sector purchasing arrangements as a ‘tag team’, by ‘interchange between them [X]’.
- (k) Cathedral suggested that the Parties might reduce competition if they ‘share their cost structure but pitched for business using both brands’, which could be difficult for competitors to quote on the business’ and ‘confusing for existing customers’. It suggested a remedy to stop the Parties from ‘using one of the brands after a certain period of time to help encourage customers to consider alternative providers’.

74. [X], [X], [X], [X] did not comment on the Merger impact.

Other general observations about the industry

75. Buyer power:

- (a) Cathedral said many large customers ‘have large buying power and look to exploit that at every opportunity’,⁶³ for example by ‘consolidating

⁶¹ X

⁶² X

⁶³ X

volumes' or 'multi source across regions to increase competition between suppliers in each area'.⁶⁴

- (b) Cathedral added that the largest suppliers served national washroom customers at low prices and that for these contracts, the price charged to the customer may be below the cost of providing the service. Cathedral told us that, in its view, smaller customers may be paying more as a result.⁶⁵

⁶⁴ ✂

⁶⁵ ✂

Part 2: Customer Responses

Introduction

76. The CMA spoke to or received questionnaires from over 20 customers. Separately we also commissioned a survey conducted by GfK.
77. This paper covers the following topics:
- (a) Criteria when customers choose washroom service providers.
 - (b) How customers procure and pay for washroom services.
 - (c) Whether national customers source from multiple providers across their estates.
 - (d) End national customer views on alternative suppliers.
 - (e) Multi-sourcing.
 - (f) Customer opinion on which suppliers are close competitors.
 - (g) Ease of changing supplier.
 - (h) Views on the Merger.
 - (i) Facilities Management (FM) customer views on viable alternative suppliers for current contract and suppliers considered in their last tender
 - (i) Response to a price rise.
 - (ii) Views on the Merger.
 - (j) Public framework organisations, framework users and buyer groups (ie private frameworks) views.
 - (k) GfK customer summary⁶⁶

⁶⁶ Full report available on the Rentokil/Cannon Phase 2 Merger inquiry case page

What are the important criteria when customers choose washroom service providers?

78. Customers identified the following factors as important in their choice of washroom service providers:⁶⁷

- (a) Service quality and reliability – eg the ability to service at an agreed frequency [X], [X], [X], [X], [X], to avoid disruption and administrative burden, [X], [X], customer perception of cleanliness [X], [X], capability to supply online servicing information and reports, sufficiently trained suppliers [X], maintain high standards [X], high levels of customer service [X].
- (b) Competitive price subject to meeting service standard [X],[X], [X], [X], [X], [X],J[X] [X], [X], [X], [X],[X]and in order to be competitive for FM companies [X] and [X].
- (c) Account management to ensure smooth running, and ability to resolve issues or dispute promptly [X],[X], [X],[X], [X], [X], [X].
- (d) Product quality – customer satisfaction of products [X], [X][X], [X], well fitted products with customers' needs [X] and bins being large enough to hold waste but compact and discreet [X].
- (e) Roll out planning and capability with thousands of sites with minimum disruption [X].
- (f) Range of services – eg providing entrance mats in addition to washroom services [X].
- (g) Framework organisations (buying groups) told us that compliance with consortia terms and conditions requirements [X]], and experience of operating in the public sector [X]] are important in addition to the above.
- (h) Geographic coverage across all regions [X], [X], [X].
- (i) Bundled service offering [X].

How do customers procure and pay for washroom services?

79. Large national customers typically use tenders to procure washroom services every two or three years. [X], [X], [X][X], [X], [X], [X], [X]⁶⁸. [X] told us it usually negotiates prices, service frequency and equipment specifications with providers as part of the tendering process.
80. Similarly, framework organisations told us that they use competitive tendering to establish framework agreements at least every four years, as mandated by the Public Contracts Regulations (2015).
81. [[X] told us that they procure washroom services by negotiating directly with washroom providers asking for quotations and pre-agreed price list.⁶⁹ Another customer [X] told us that it does not use any formal procedure to choose suppliers and it currently has an ongoing arrangement with Cannon.⁷⁰
82. After an initial contract, customers can extend it on a rolling basis:
- (a) [X] has extended its contract with Rentokil for 4 times (1-year each extension)
 - (b) [X] extended its initial contract (which lasted 4 years) by two years.
 - (c) [X] uses a rolling contract which is 'only reviewed as required'.⁷¹
 - (d) [X] told us that it extended Cannon's contract (which lasted two years) as it was happy with the service and with Cannon's offering (this was assessed after benchmarking Cannon's offering with the market).⁷²
 - (e) [X] contract with Rentokil expired in 2016 and it is currently rolling on a monthly basis.⁷³ However, on expiry of the current contract the services will be tendered every two years.⁷⁴
83. In terms of pricing structure, some customers, including end-users and framework organisations, said they pay per service per visit, based on an agreed service frequency. [X], [X], [X], [X], [X], [X], [X], [X] and [X] noted that it pays one price for all shops across the UK. No customers mentioned price differentiation by location.

68 X
69 X
70 X
71 X
72 X
73 X
74 X

84. Some other customers also told us that they pay a price per unit, with prices negotiated based on volumes [X], [X]⁷⁵ [X] and [X], [X],[X], [X], [X].⁷⁶
⁷⁷ ⁷⁸ [X] also added that prices are negotiated annually using benchmarking exercises.⁷⁹
85. Three customers receive rebates [X] –volume rebates, [X]– basis not specified, [X]– basis not specified];⁸⁰ one customer [X]told us that it negotiates prices over a range of bundled services ⁸¹ and another customer [X]said it receives an undisclosed discount for acting as a buying group, however it does not receive any rebates.⁸²Regarding washroom services provided via FMs, [X]told us that pricing works in various ways depending on its contractual model. It uses a mixture of tenders, quotations and nominations by its customers to choose washroom services providers.

Do national customers source from multiple providers across their estates?

Current purchase pattern

86. Some customers use a single provider of washroom services across their estates in the UK.
- (a) [X], a national food retailer, uses Cannon as a single provider for all its 1683 sites.⁸³ It said national coverage is ‘simple to manage’.⁸⁴ However, [X] used to multi-source from PHS, Rentokil, B Hygienic and Cannon prior to its current contract.
- (b) [X], the [X],⁸⁵ uses Cannon for all its 2601 sites. It cited ‘consistency of delivery across a large estate’ as an important reason for its choice.
- (c) [X], a restaurant group, uses PHS as a single provider across its estate of 462 sites. It said it prefers ‘nationwide all in one solution to reduce complexity’. It switched from Rentokil to PHS in July 2018.
- (d) [X], a logistics company, uses Cannon across its 65 sites.

75 X
 76 X
 77 X
 78 X
 79 X
 80 X
 81 X
 82 X
 83 X
 84 X
 85 X

- (e) [X], an operator of pubs, indicated that it only uses Rentokil as a single provider across all its 1,740 sites.⁸⁶ It commented that Rentokil has a national coverage, a wide range of products and high quality products and services.
- (f) [X], a UK retailer, uses Cannon as solely provider across all its [X]sites.⁸⁷
- (g) [X], a multi-regional customer with 191 sites primarily in the Midlands, currently uses Rentokil as a single provider.
- (h) [X], a food retailer, uses Rentokil as only provider across all its 330 sites which have a washroom service.⁸⁸

87. Some customers told us they multi-source across sites or regions:

- (a) [X], an operator of pubs, restaurants and bars, uses Rentokil on c.1600 sites and PHS on 50 sites. It said it retained PHS on the sites acquired from another company in 2014.⁸⁹
- (b) [X], a textile rental services provider, uses Cannon as its main provider. Other providers used are ESK, PHS, Shorrock and Subec. [X] explained that it uses multiple providers in order to meet its requirements.⁹⁰
- (c) [X]an operator of retailers, restaurants, hotels etc., uses Rentokil as main supplier as well as various (unspecified) providers across its 500 sites. [X]explained that it uses multiple providers for geographic reasons and client requests.⁹¹
- (d) [X]sources from Cannon, Initial and PHS but it has not provided details on number of sites serviced by each provider.
- (e) [X] a FM, uses Cannon as main provider across 171 sites and PHS for its remaining 29 sites.⁹²
- (f) [X], an FM, uses Rentokil and Cannon across the following regions: Scotland, North and Midlands, East of England, South East, South West and London. However, it uses regional providers in some sub-regions

⁸⁶ X
⁸⁷ X
⁸⁸ X
⁸⁹ X
⁹⁰ X
⁹¹ X
⁹² X

(Northern Scotland, Cornwall and Norwich) because of poor coverage of national providers.⁹³

- (g) [X] said it uses Cannon and Rentokil on its framework because they both have a high service quality, national coverage, competitive pricing and strong account management.⁹⁴

⁹³ X
⁹⁴ X

End customer views on alternative suppliers

88. Customers were also asked whether they would consider using the following options if the supplier increased price for feminine hygiene waste disposal by 5%:

- (a) Another washroom specialist.
- (b) A combination of regional washroom specialists.
- (c) A FM or a combination of FMs.
- (d) Other suppliers.
- (e) Stay with existing supplier.
- (f) Self supply.

89. Answers to these questions are summarised below:

Customer	Current supplier	Alternative options considered					
		Another washroom specialist with a national footprint	A combination of regional washroom specialists	A Facilities Management (FM) or a combination of FMs	Other suppliers	Stay with existing supplier	Self-supply
[X]	Rentokil (1600)	Yes	Yes, a possibility but	Yes (potential to put through	Yes (not identified)	Yes, if service cannot be matched	No

	sites) PHS (50 sites)		not ideal due to size to manage service level. M&B did not have the need to explore this option in the past.	cleaning companies)		and increase is justified	
[X]	Cannon	Yes	Yes, would consider breaking tenders up regionally if it turns out cheaper after accounting for increased management cost	No, prefer to deal direct. Service providers who do not provide a service directly are ruled out from pre-qualification in tenders.	Yes (not identified)	Maybe, if rest of market also moved prices 5% higher	No
[X]	PHS (switched from Rentokil)	Yes	No, prefer nationwide all in one solution to reduce complexity	No, prefer expertise in [washroom] area	No	Yes	No

[X]	Cannon	No	No	No – would involve paying margin on margin, prefer to deal direct	No	Yes; it will not consider going elsewhere for a 5% rise due to hidden costs of tendering and moving the business. It clarified on call that it may consider obtaining quotes from PHS and Rentokil for higher price rises.	No
[X]	Rentokil	Yes, Cannon; PHS	No, national footprint required	Interserve	No	No	No
[X]	Cannon	Yes	No	Yes	Yes	Yes	No
[X]	Cannon	Yes, PHS or Rentokil	No	No	No	Yes	No
[X]	Rentokil	Yes	No. Preference for single point of contact	No, some FM managed in-house	Yes, would consider 'google search hits'.	Yes	No
[X]	Rentokil	N/A	N/A	N/A	yes	N/A	N/A
[X]	PHS	yes	No	N/A	yes	N/A	N/A
[X]	PHS	N/A	N/A	N/A	yes	N/A	N/A

[<]	N/A	N/A	N/A	N/A	N/A	yes	N/A	N/A
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90. Further detail on the above table is provided below.
91. The following customers told us that they would not consider switching to regional providers but instead they would prefer another national provider.
- (a) [redacted], [redacted],¹ [redacted], [redacted] and [redacted] said they would consider switching to another national provider, but not to a combination of regional providers. In particular, [redacted] and [redacted] cited ‘single point of contact’,² and ‘nationwide all-in-one solution to reduce complexity’ as reasons.³ [redacted] further noted that it would only switch to multiple regional providers if a national provider was less efficient than multiple providers.⁴
 - (b) [redacted] told us it would consider another national provider such as PHS to ensure the best quality products and services for the best price to its members.⁵ Leisure Supply Group did not comment on the possibility of using regional providers.
 - (c) [redacted] told us that they would not consider using a combination of regional providers as it only uses one supplier to serve multiple regions.⁶
92. Some customers said they would consider using regional providers, however they showed mixed propensity in doing so:
- (a) [redacted] considered a combination of regional washroom specialists ‘a possibility, but not ideal due to size of business to manage service levels’.⁷
 - (b) [redacted] told us that following a 5% increase it would consider another national provider and ‘potentially’ a combination of regional suppliers if they are able to meet pricing, quality and coverage criteria.⁸
 - (c) [redacted] told us that they would consider another national washroom specialist or a combination of ‘various’ regional washroom specialists.⁹

1 [redacted]
2 [redacted]
3 [redacted]
4 [redacted]
5 [redacted]
6 [redacted]
7 [redacted]
8 [redacted]
9 [redacted]

(d) [X] (an FM) told us that it would consider using another national provider as well as a combination of regional providers although it also noted that regional providers tend to be more expensive than national providers.¹⁰

End customers - Multi-sourcing – additional comments

93. **Customers who told us that they would not** consider using a combination of regional washroom specialists if their current suppliers increased the price of feminine hygiene waste disposal by 5%, had the following comments

Customer	What are the barriers for you to source from multiple suppliers, eg the steps and any costs involved?	The extent to which you consider it economical to use multiple regional suppliers?
[X]	<p>“The cost and time taken to tender vs the opportunity (in this case would be cost avoidance of circa [X] at 5%)</p> <p>The disruption and hassle to change – it means communicating to 2000 stores, managing that change over and dealing with the questions and issues that arise – complicated with one national supplier – if split regionally this would need different messages to different groups of shops”</p>	<p>“The complexity of managing multiple suppliers for escalation of issues. With one national supplier we have one National Account Manager who deals with all issues. There is a hidden operational cost of this complexity”</p>
[X]	<p>“Given the reduced size of the [X] estate, it is unlikely that we will receive an overall cost that will be in line with our budget. Plus it would generate multiple contracts to manage, causing additional workload for the operations team.”</p>	<p>“It would be more beneficial for a retailer with a much larger estate, not one who is actively reducing their estate.”</p>

[X]	<p>“The only barriers are that our existing model in terms of supplier management (whether that be accounts payable, commercial, operational, etc.) is done on a relatively low overhead model.</p> <p>We are not currently resourced to make adding suppliers a preferable thing to do – more invoices, more supplier contacts, more meetings, more reporting, need to co-ordinate multiple inputs to get a measure on how overall service is going etc., etc.</p> <p>Therefore a 5% increase on one element of our overall ‘washroom’ basket is unlikely to push us to strain that model.</p> <p>Overall it would end up costing us more, albeit somewhat indirectly in time / resource. So there is nothing stopping us per se aside from that. Insofar as that if we felt a ‘one supplier’ solution was not working – because of cost / ability, or any other metric that could mean our restaurants are disadvantaged, then we would look at alternative solutions – whether that be regional / local / splitting up the different service elements.</p> <p>But all other things being approximately equal, we prefer a ‘nationwide’ solution – one point of contact, one contract, consistent service, relatively resource efficient. And that goes across all area, it’s not specific so washroom services.”</p>
[X]	<p>“Due to size and nature of our estate we would source from a supplier able to provide national coverage for convenience and in order to benefit from economies of scale. We would not look to break this up due to the complexity/time and cost involved in managing multiple suppliers to deliver the same service.”</p>

[X]	<p>“We predominantly cover one county, so it would be more practical for a single supplier. If we were looking at multiple regional suppliers, we’d probably be talking relatively small businesses. The service we receive is currently good and convenient – though anything above 5% probably would trigger a thorough review of suppliers.”</p>	<p>“As above, for us, a ‘regional supplier’ would probably cover the majority of our estate as we are predominantly based in one county. If there was a cost saving for using multiple suppliers, it would be factored into the business case, though this would be offset against service standards, businesses risk and convenience.”</p>
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94. Customers who told us that they **would** consider using a combination of regional washroom specialists if current supplier increased the price of feminine hygiene waste disposal by 5%, had the following explanations:

Customer	What are the steps you would take to source from multiple suppliers, and any costs involved?	The extent to which you consider it economical to use multiple regional suppliers?	How many regional suppliers you would consider using instead of a national supplier? Which ones would they be?
[X]	<p>“We would need to identify the different suppliers in each region and then we would need to tender with those suppliers to determine cost and service levels. No direct cost of sourcing, just the</p>	<p>“Not the most economical as it would myself managing multiple suppliers rather than just the one. It would also mean the possibility of different costs for each of our sites. In a business where all of our sites will want most effective cost they may be discouraged that other sites have a better rate in a particular region”</p>	<p>“Can’t answer at this point – no limit on the number and the market research would need to be done to identify the correct suppliers”</p>

	time and resource internally required to source.”		
[X]	<ul style="list-style-type: none"> • “[X] had invited PHS, Rentokil, and Cannon for the previous tender, but if competition is ‘constrained’ in the future, it will ‘cast the net wider’ and invite regional washroom specialists to tender. [X] is open to being served by Tier-2 National and regional washroom specialists if they turn out to be cheaper after accounting for the additional management costs of dealing with multiple suppliers. Ensuring competition in the tender gives [X] leverage in getting a good price” • “If prices were to increase by around 5%, [X] would consider breaking tenders up regionally. Although this increases management cost as [X] needs to deal with more suppliers, this is manageable, and [X] currently manages multiple regional providers in other services it procures” • “[X] mentioned Berendsen (now taken over by Elis), as a possible alternative washroom service provider since it has a big laundry contract with Berendsen/Elis. [X] “ 		

Other additional responses received from end customers

- (a) [X] told us that it supplies centrally through a single supplier. It tenders the contract when they are due for renewal and is currently in the first year of a three year nationwide contract. [X] has over 1228 sites with multiple bins on many sites. In the tendering process, [X] found that a single national supplier provided a better rate. If its current supplier raised by 5%, [X] would look to renegotiate with the same supplier or tender the market for an alternative single supplier. If it looked at an alternative, PHS would be an option.
- (b) [X] procures nationally using tendering. It has 40 sites requiring sanitary waste disposal. [X] currently uses a single supplier for the purpose of continuity, relationship building and customer services. It would consider using multiple suppliers if the current supplier raised prices by 5%. It is not sure which suppliers it would consider using.
- (c) [X] told us that, as a business, they have done a lot of work to reduce the number of suppliers they use for facilities management categories and by going to regional suppliers this would increase their supply base. [X] said that it would not be an option to introduce more suppliers.
- (d) [X] told us:
 - (i) that it has an embedded procurement policy, which indicates that projects with an annual value greater than [X] must be reviewed with a member of the procurement team. Each project may be contracted for a term and at the end of the first term can be rolled-over, if the renewal does not incur additional charges or significant increases. Where a renewal has already occurred or there are increases, procurement will conduct a Request for Quote (RFQ) with a pre-selected list of potential suppliers.
 - (ii) [X] recently reviewed its service for washrooms and will be renewing its services with PHS, having conducted a RFQ at the start of the current contract.
 - (iii) [X] requires washroom services across all regions of the UK and has around 1,000 sites requiring sanitary waste disposal services. The procurement team procures washroom services for the entire estate nationally. An electronic tendering service is used.

- (iv) It currently uses a single supplier for two reasons. First, there are cost-efficiencies in having one supplier deliver cost-savings through economies of scale. Second, for the purpose of account management. With 1,000 sites across the nation, a single supplier can ensure brand consistency, quality consistency and account management structure that support on a nationwide scale innovation and site support, which localised or regionalised contractors could not deliver.
- (v) A 5% price increase by PHS would be rejected and [X] would be forced to conduct another RFQ to ensure market competitiveness. For a service such as this, [X] said that it would always want to ensure one point of contact with one supplier, whether that was the service provider itself or through a broker.
- (vi) Rentokil, Cannon and PHS submitted quotes at the last tender. [X] was not aware of other suppliers. The winner was chosen based on the most competitive bid, energy efficient equipment and an agreement to replace all equipment in estate for free.

(e) [X] told us that it has a:

- (i) Central contract with PHS for washroom services and that it operates nationwide. It procures a central national contract and uses tendering when needed. It has over 2000 sites.
- (ii) [X] said that it uses a single supplier for ease, one contact and escalation, one contract and same pricing for all outlets. In response to a 5% price increase, it would possibly consider using multiple suppliers, though it does not envisage that there would be much benefit.
- (iii) [X] said that it had previously spoken to Berendsen, Cannon, Initial, PHS and Admiral. Only PHS and Initial/Cannon were able to service an estate of its size. In its last tender, PHS, Initial/Cannon (as one entity), Berendsen and Admiral bid. The winning supplier offered the most benefit, was the current incumbend and there was a wider business appetite for not changing the status quo. There was not a vast price difference between bids.

(f) [X] told us that:

- (i) [X] – manages the UK contract for washroom services however it does not mandate the use of preferred suppliers. Hotels can choose which supplier they use, but the majority of the UK managed hotel estate uses the [X] contracted supplier. This does not apply to franchised hotels who are independent businesses, although some franchised hotels do participate in this contract.
- (ii) it uses tendering and that the current contract for sanitary waste disposal services serves 54 hotels. This contract is served by PHS.
- (iii) it uses a single supplier for sanitary waste disposal across its estate to ensure consistency, leverage volume to improve pricing and consolidation of the supply base
- (iv) it would consider using multiple suppliers if its current supplier raised prices by 5% and would consider using Initial and Zenith
- (v) regarding its last tender for sanitary waste disposal and washroom services, PHS, Initial and Zenith Washrooms submitted a quote or tender. Although at the time of this paper the final supplier has not been selected, [X] stated that its decision would be made on the basis of commercial value of the bids, geographical coverage, operational performance and capability to deliver the service to the required standard.

Do customers source different washroom services from multiple providers?

95. We received mixed responses as to whether customers multi-source or single-source for distinct types of washroom services.¹
96. Some customers indicated that they use (or can use) multiple providers for different washroom services.
- (a) [X] uses Cannon for all washroom services (c. [X]) except hand dryers and water management systems, for which it uses PHS (c.100K annually).²

¹ [X]

² [X]

- (b) [X] existing contract with Cannon covers feminine hygiene, nappy bins and dust mats. Greggs did not explain how they source other types of washroom services.
- (c) [X] said it recently 'broke up washrooms into several categories i.e. hand dryers, soap, toilet roll dispensers etc' and can source from 'specialist suppliers in those fields'.³ Its current contract with Rentokil however covers 'all washroom items'.
- (d) [X] only use Cannon as provider for the supply of feminine hygiene waste disposal and air fresheners (c.21K annually). For other washroom services, it uses Cannon as well as PHS and (to a lesser extent) ESK and Subec.⁴
- (e) [X] mainly uses Cannon (c. 560K annually) and to a lesser extent, PHS (c. 100K) for all washroom services. Feminine hygiene and nappy waste disposals are largely supplied by Cannon (around 85%) while PHS only accounts for less than 20% of these services.
- (f) [X] (an FM) uses two preferred national providers: Rentokil and Cannon. [X] explained that that a single national provider is not able to satisfy its needs in terms of product range and distribution network in order to handle clients.⁵
- (g) [X] currently contracts with Rentokil to supply most of its feminine hygiene waste disposal (around 85%) and only a small proportion is supplied through various suppliers. [X] also indicated that it uses other unspecified suppliers for air fresheners and it self-supply for nappy waste disposal.⁶
- (h) [X] uses Rentokil for the supply of feminine hygiene and nappy waste disposal only (c.140K annually).⁷ However, it buys hand dryers and soap from other suppliers (which also supply kitchen equipment).⁸
- (i) [X] indicated that it uses both Rentokil and Cannon to purchase washroom services⁹ and it purchased roughly the same amount of washroom services from both suppliers in 2017 (c. 87K annually).

3 [X]
4 [X]
5 [X]
6 [X]
7 [X]
8 [X]
9 [X]

97. On the other hand, some other customers told us they bought all washroom services in the same contract.
- (a) [X] has a 'total washroom solution' contract including feminine hygiene, urinal management, hand drying, etc. Consumables are covered under a separate contract with Kimberley Clark. Pizza Express also added that it does not procure all service lines from PHS since it prefers to deal directly with the manufacturers.¹⁰
 - (b) [X] uses Cannon for all washroom services.¹¹
 - (c) [X] uses Rentokil for nappy units, vending units, air care and urinal sanitiser.
 - (d) [X] uses Rentokil for all washroom services.¹²
 - (e) X indicated that it used Cannon for feminine hygiene and nappy waste disposal

¹⁰ X
¹¹ X
¹² X

End customer views on alternative suppliers

98. Customers were also asked whether they would consider using the following options if the supplier increased price for feminine hygiene waste disposal by 5%:
- (a) Another washroom specialist.
 - (b) A combination of regional washroom specialists.
 - (c) A FM or a combination of FMs.
 - (d) Other suppliers.
 - (e) Stay with existing supplier.
 - (f) Self supply.
99. Answers to these questions are summarised below:

Customer	Current supplier	Alternative options considered					
		Another washroom specialist with a national footprint	A combination of regional washroom specialists	A Facilities Management (FM) or a combination of FMs	Other suppliers	Stay with existing supplier	Self-supply
✂	Rentokil (1600 sites) PHS (50 sites)	Yes	Yes, a possibility but not ideal due to size to manage service level. M&B did not have the need to explore this option in the past.	Yes (potential to put through cleaning companies)	Yes (not identified)	Yes, if service cannot be matched and increase is justified	No
✂	Cannon	Yes	Yes, would consider breaking tenders up regionally if it turns out cheaper after accounting for increased management cost	No, prefer to deal direct. Service providers who do not provide a service directly are ruled out from pre-qualification in tenders.	Yes (not identified)	Maybe, if rest of market also moved prices 5% higher	No

✂	PHS (switched from Rentokil)	Yes	No, prefer nationwide all in one solution to reduce complexity	No, prefer expertise in [washroom] area	No	Yes	No
✂	Cannon	No	No	No – would involve paying margin on margin, prefer to deal direct	No	Yes; it will not consider going elsewhere for a 5% rise due to hidden costs of tendering and moving the business. It clarified on call that it may consider obtaining quotes from PHS and Rentokil for higher price rises.	No
✂	Rentokil	Yes, Cannon; PHS	No, national footprint required	Interserve	No	No	No
✂	Cannon	Yes	No	Yes	Yes	Yes	No
✂	Cannon	Yes, PHS or Rentokil	No	No	No	Yes	No
✂	Rentokil	Yes	No. Preference for single point of contact	No, some FM managed in-house	Yes, would consider 'google search hits'.	Yes	No
✂	N/A	N/A	N/A	N/A	yes	N/A	N/A

✂	N/A	PHS	yes	No		yes	N/A	N/A
✂	N/A	PHS	N/A	N/A	N/A	yes	N/A	N/A
✂	N/A	N/A	N/A	N/A	N/A	yes	N/A	N/A

100. Further detail underlying consumer preference is described below.

- (a) [X] cited 'national provider' as a reason for considering Cannon, PHS and Rentokil; it chose Cannon eventually because of 'good service'. It told us that local suppliers (eg B Hygienic) are viable because of 'good local delivery of service and relationship with the site', but are 'harder to manage and price tends to be higher'.¹
- (b) [X] cited 'capability to supply nationwide' as a reason for considering the Parties and PHS. It said both Rentokil and PHS were cost competitive, but chose Rentokil to avoid risk of change. It said Cannon was 'not cost competitive in tender'.
- (c) [X] 'national coverage and track record with other large customers' as reasons for considering Cannon, PHS and Rentokil.²
- (d) [X] explained that PHS is a 'well-regarded national washroom solution provider'. It told us that it is not aware of any providers other than the Parties and PHS. It also added that when it retendered the contract 'it was a two horses race (Rentokil versus PHS) since there are very few providers who can provide nationally. At the time of the tender, Cannon did not approach them'.³
- (e) [X] indicated that Rentokil's service quality and sales process was better than the one offered by PHS. ⁴
- (f) [X] told us that it values its current relationship with Cannon. On reasons for considering Rentokil and Mustang as alternative suppliers, Mothercare commented that Rentokil have a strong reputation and they are able to operate at national level while Mustang have already an existing relationship with Mothercare (supplying cleaning services).⁵
- (g) [X] cited 'highly competitive price' as a reason for choosing Cannon.⁶

¹ [X]
² [X]
³ [X]
⁴ [X]
⁵ [X]
⁶ [X]

- (h) [X] cited 'national coverage' and same services offered as a reason for choosing Cannon and considering PHS.⁷

End customer views on ease of switching supplier

101. End customers provided the following views on switching:

- (a) [X] told us that Changing all washroom items in all sites would be a large-scale project. Cost and timing would need to be defined but this is possible. It told us that in previous tenders, another washroom supplier devised a plan to manage this project change and it was achievable though there is high level of risk involved
- (b) [X] told us that it would be difficult, it would take 3 months and involve a swap of thousands of pieces of equipment, plus the 'making good' where screw holes/paint of previous equipment used to be on the walls.
- (c) [X] told us that switching comes with a risk of the new provider not doing what they promised, cost of 'ripping out' all hand dryers, waste bins etc, but is manageable if new supplier does it
- (d) [X] told us it is difficult as any change in our shops causes disruption and it would need a very good rationale for doing this. The practicality of collection of old bins/mats is complicated without interrupting service. However, it added that Cannon managed this seamlessly for us so proves it can be done well.
- (e) [X] told us that it would involve limited cost to change and that a 3 month transition period is anticipated.
- (f) [X] told us that if it was to change supplier, this would be moderately uncomplicated. We are unsure of the cost of change and the time taken to transition would be decided with the supplier at the contracting stage
- (g) [X] told us that to change suppliers would not be too easy as it has sites with several 'fitted' units at each location and these units would need to be removed and replaced with similar units. TNT would anticipate this taking 3-6 months to replace all.
- (h) [X] told us that it would be relatively difficult to manage cross over period and ensure smooth transition.

End customer view on the merger

102. End customers had the following comments on the Merger:

- (a) [X] told us that ' - it was not concerned about the merger. Losing Cannon is not a big issue since Cannon was not competitive in previous tenders. Furthermore, it also told us that it has broken up washroom into several categories and source with specialists;
- (b) [X] told us that overall it considers that nothing immediate would occur but the merger is likely to have a negative effect, but not necessarily a significant negative effect. It would have to cast net more widely to ensure competition during next tender.
- (c) [X] told us that the merger may not impact it since it never considered Cannon in previous tenders.
- (d) [X] – told us that it was concerned about the merger and that that price may be affected due to less competition.
- (e) [X] told us that it was not concerned about the merger and that it may change provider in some shops.
- (f) [X] told us that the merger may not have impacts initially but that Rentokil may increase charges.
- (g) [X] told us that it was not concerned about the merger as it felt that the merger would have very little impact on its business.
- (h) [X] told us it was not concerned about the merger as it would have very little impact.
- (i) [X] stated that Rentokil and Cannon being one company, would definitely reduce competition within the washroom management sector, and make it much more difficult to drive a better price.

FM customers

103. Regarding FM customers current waste disposal contract, FMs provided the below information regarding:

- (a) Their procurement method
- (b) Number of sites
- (c) Current supplier
- (d) Non-waste supplier
- (e) Viable alternative supplier for current waste disposal contract
- (f) Supplier considered in last tender

Type	Customer	Procurement method	No of sites	Current supplier	Non-waste suppliers	For current waste disposal contract:	
						Viable alternative suppliers	Supplier considered in last tender
FM	[redacted]	N/A	2000	- Cannon (£[redacted]K) - Rentokil (£[redacted]); - PHS (£[redacted])	Cannon, Rentokil, PHS	- PHS: national coverage; - Rentokil: national coverage - Cannon: not viable as it's a competitor	PHS & Rentokil

FM	[REDACTED]	Commodity and local tenders which are reviewed annually.	200	- Cannon (£[REDACTED]K) - PHS (£[REDACTED]K)	Cannon, PHS for other washroom services, & Kimberly Clark, Bunzl for consumables	PHS: national coverage	Cannon (most competitive), PHS (least competitive)
FM	[REDACTED]	Combination of quotations and pre agreed price lists (dependent upon volume and type of service) which are reviewed as required.		- Rentokil; - Cannon	- directly procures consumables - externally procures hand dryers.	Rentokil (wider higher specification products), Complete Washroom (excellent service levels)	N/A
FM	[REDACTED]	Tender process every 2 years	1200	- Rentokil (£[REDACTED]); - Various (£[REDACTED])	'Various types'	Information not provided	Information not provided

FM	[X]	Mixture of tender, quotations and sometimes client nominated. We review this in line with our Client contracts.	n/a	<ul style="list-style-type: none"> - Cannon ([X]%) - Rentokil ([X]%) - PHS ([X]%) - Berendsen ([X]%) - Mayflower ([X]%); split by H1-2018 spend 	Bunzl; contract cleaners	PHS	N/A
FM	[X]	N/A	n/a	PHS, Rentokil, Cannon	n/a	n/a	PHS, Rentokil and Cannon (because of capability to service entire estate). Small suppliers like Liberty Hygiene were not considered because of limited geographic coverage
FM	[X]	N/A	Multiple	<ul style="list-style-type: none"> - PHS (preferred supplier) - Rentokil ('small spend') - Cannon ('small spend') - Local suppliers (many) 	N/A	N/A	N/A

Sub-contractor	[X]	No formal procedure as we have an ongoing arrangement with Cannon	23	- Cannon; - ESK: East, SE; - PHS: East, SE, W Midlands; Yorkshire & Humber - Shorrock, Subec: West Midlands	Cannon, PHS, Shorrock, ESK Hygiene, Subec	- Rentokil - PHS - Other smaller suppliers (locally for individual sites; consumables from local delivery point)	N/A
FM	[X]	N/A	N/A	Rentokil, Cannon, PHS	N/A	N/A	N/A

FM Customer options in response to a price rise

104. FMs were asked what they would do if their current supplier increased price for feminine hygiene waste disposal by 5%. FM customers were provided with the following options and had the following comments.

Type	Response	Geography	Alternative options considered				
			Another washroom specialist with a national footprint	A combination of regional washroom specialists	Others?	Stay with existing?	Self-supply?
FM	[X]	National	Yes (Rentokil is the only viable alternative)	Yes (not ideal, but if 2nd supplier also increase costs by 5%,	No	Yes	No

				may change approach to regional)			
FM	[X]	National	N/A	N/A	N/A	N/A	N/A
FM	[X]	National, except Wales & NI	PHS, Direct 365	No	No	Possibly	No
FM	[X]	National	Yes: PHS, Rentokil, Cannon (national footprint, service levels, cost)	- Complete Washroom - Diamond Hygiene - B Hygienic (good service level and product range)	No	Consider, if price can be absorbed into the contract of passed to client	Consider Binny Bins (disposable sanitary bins) depending on client site on a case by case basis
FM	[X]	National	No (price increase not acceptable)	Not answered	Not answered		No, do not possess the capability
FM	[X]	National	Yes, PHS	Yes (decisions made by local account managers)	No		No
FM	[X]	n/a			n/a	n/a	No

FM	[X]	National	N/A	N/A	N/A	N/A	N/A
Sub-contractor	[X]	Multi-regional (All except 3)	No	No	No	Yes	No
FM	[X]	National	N/A	N/A	N/A	N/A	N/A

Account management

105. Regarding account management, we received the following comments from FMs:

- (a) [X] told us it gets regular KPI, MI, compliance reports from PHS, and deals with a centralised account manager. It believes that a regional provider can provide the same level of account management services as PHS, but dealing with say 25 regional suppliers to serve a customer would be cumbersome.
- (b) [X] told us it has a dedicated account manager in PHS, and get 'standard MI data' on service visits, innovations in the market every quarter. It added that smaller suppliers can also provide similar account management services, but a large company like it would not want to invest the time collating together MI reports from many small suppliers.

FM customers concerns about the merger

106. FMs had the following comments:

- (a) [X] told us that it had some concerns about the merger as it considered it would reduce competition, and thought that Cannon was not a viable partner, and may improve competitiveness of the merged parties due to critical mass, capabilities and coverage. However, we are not too concerned by the merger since PHS is a strong competitor in the market, and it has a global relationship with Rentokil in pest control services which gives it leverage to prevent Rentokil from abusing its dominant position in the UK washrooms market.
- (b) [X] told us that it was concerned about the merger as it would restrict competition leading to a reduction in quality or price.
- (c) [X] told us that it had some concern about the merger as it prefers to deal with at least two national suppliers. But noted that it can be beneficial if the Parties use the merger to enhance their distribution network and combine their product offering.

- (d) [X] told us that it had no concerns about the merger as it does not use cannon much.
- (e) [X] told us that it had some concerns about the merger as it would lead to less choice, but also could lead to economies of scale. Small part of our FM business (£1m of £100m). Furthermore, it predominantly subcontracts washroom services to cleaning companies.
- (f) [X] told us that it was concerned about the merger. It noted that post-merger, only PHS and the merged entity will be viable options to deliver to national organisations like us. It considered that reducing the competition for route-based washroom, waste and hygiene services to only 2 companies would have a significant negative impact on the market, especially since large national contracts make up a substantial portion of the market value.
- (g) [X] told us that it is not concerned by the merger as washroom facilities are 'not a massive area of spend'
- (h) [X] said that it is concerned that a market with 3 true national suppliers is being further reduced to potentially 2 suppliers. It stated it currently uses all of these suppliers in order to deliver to our client needs, so a reduction in the number does not help our customer base. It stated that had there just been 2 suppliers, It does not think its process would have delivered such a competitive costs.

Framework organisations, framework users and buyer groups

107. Of seven public frameworks and buying groups, three identified the other merger party as an alternative and/or considered them in the last tender. Two identified PHS and two identified other suppliers. Alternative options considered in response to a price increase of 5% are also noted.

Type	Customer	Current supplier	Viable alternative/supplier considered when last obtained quotes	Alternative options considered in response to a price increase of 5%			
				Another washroom specialist with a national footprint	Combination of regional washroom specialists	FM or a combination of FMs	Stay with existing supplier
Framework Org	[redacted]	Hygiene solutions	Ranked: PHS Hygiene solutions Rentokil Cannon	N/A	yes	N/A	N/A
Framework Org	[redacted]	1st Class Hygiene Healthcare Environmental Services Rentokil Cannon PHS AM Services t/a Pristine Washrooms	The framework is multi-provider with a combination of national and regional suppliers to provide members with choice and support competitiveness of agreement: 1st Class Hygiene	N/A	N/A	N/A	N/A

			Healthcare Environmental Services Rentokil Cannon PHS AM Services T/A Pristine Washrooms				
Buyer Group	[X]	Initial	Initial PHS	yes	No	No	yes
Buyer Group	[X]	Rentokil	PHS	No as FH small part of business			yes
Buyer Group	[X]	Cannon and Initial	Cannon and Initial	yes	yes	No	yes
Public framework user	[X]	Initial	Cannon Hygiene PHS Pure Washrooms	N/A	N/A	N/A	N/A
Public framework user	[X]	Rentokil		N/A	N/A	N/A	N/A

Ease of changing supplier

108. On ease of changing supplier, framework organisations and buyer groups provided the following comments:

[X] stated 'If the end-user serves notice to current supplier in line with contract documents, transfer between suppliers on the framework is very easy

- (a) [X] stated Suppliers awarded to the framework can only be changed when the framework is retendered but it is easily managed a framework level where there are new or different suppliers awarded. However, switching is challenging for end-users because there are often hundreds of feminine hygiene bins to replace, and this can take a lot of planning and staff time.
- (b) [X] stated that This would be difficult and have a huge financial implication.
- (c) [X] told us It would probably take over 12 months to implement due to the nature of the contracts that Rentokil Initial has with its customers
- (d) [X] told us moving customers to different suppliers would be difficult since product lines can have varying contract lengths, and this makes difficult to terminate contracts and pay off residual contract values

Views on the Merger

109. Framework organisations and buyer groups had the following views on the Merger:

- (a) [X] stated it was unsure about whether it was concerned about the Merger, adding that there may be a '3-to-2' in national providers, potential for price increase, but the framework is most favourable and customers would receive the best price. Smaller/regional suppliers may want to tender due to reduction in national suppliers
- (b) [X] stated it was realistic about the impact of the merger on its framework. On the one hand, Cannon is 1 of only 2 suppliers other than PHS & Rentokil to have any business under the agreement which is dominated by two companies; on the other hand Rentokil have proved a

viable alternative to PHS, with whom other suppliers have largely been unable to compete .

- (c) [X] stated it is not sure if there will be any impact.
- (d) [X] stated that it was concerned about the merger, adding: It could affect the way price lists are agreed as competition is being limited; have two suppliers for each product area and Merger will limit options
- (e) [X] told us that it was not concerned about the merger

GfK customer survey

- 8.1 We conducted a survey (the GfK customer survey) but we have placed limited weight on the findings of the customer survey in our assessment of the competitive effects of the Merger on national and multi-regional customers because the majority of customers drawn in the sample were regional or local customers. The results from the survey (in the sample for ‘multi-site’ customers) therefore are more reflective of local and regional customers than national and multi-regional customers
- 8.2 Of the 369 customers in the sample, only 11 required washroom services in eight or more regions. The spend of these customers is very small compared with the Parties’ other national and multi-regional customers and those of PHS. As such, care is required when assessing the views of these customers.¹ We have analysed the findings from these responses:
 - (a) In response to the price diversion question, of 11 multi-regional customers, 2 said they would continue with the party and 9 said they would use a different provider. None said they would switch to self-supply.
 - (b) Of the 9 customers who said they would use a different provider, 2 would use Initial, 5 would use PHS, 1 would use Healthcare Environmental Solutions, 1 would use ‘another FM company’, 1 would use ‘another specialist provider’ and 4 did not know which provider they would use.²
 - (c) Those customers who said they would continue to use the merger party were then asked the forced diversion question. Both multi-regional

¹The breakdown of the 2017 washroom spend of these customers with the Parties is as follows (the number of responses for their total washroom spend is shown in brackets): 4 respondents spent £1,000 or less (0); 3 respondents spent £1,001 to £5,000 (3); 3 respondents spent £5,001 to £10,000 (1); 1 respondents spent £10,001 to £25,000 (2); 0 respondents spent £25,001 to £50,000 (1); 0 respondents spent £50,001 to £100,000 (1); and 3 respondents did not know their total washroom spend.

² It was possible to select multiple providers in response to this question.

customers asked this question said they would use a different provider or providers instead, with one saying they would use 'another specialist provider' (without providing the name of the provider) and one saying they did not know which provider they would use instead.

- (d) Survey respondents were asked whether they considered other types of providers or self-supply when appointing the party to provide sanitary waste disposal/washroom services. Of 11 multi-regional customers, 4 considered a cleaning company, 4 considered a waste collection company, 2 considered a FM company and 1 considered self-supply. Three customers said they did not consider any of these or self-supply when appointing the party.
- (e) Survey respondents who used the party for more than one service were asked how likely they would be to appoint multiple providers instead of a single provider if the party was no longer available. Of 6 multi-regional customers who use the party for more than 1 service, 2 said they would be very likely, 2 said they would be fairly likely and 2 said they would be very unlikely to appoint multiple providers instead.
- (f) Of multi-regional customers who asked other providers to tender/quote in the last 2 years (8 respondents):
 - (i) 5 invited PHS, 3 invited Initial, 1 invited Cathedral, 1 invited Complete Washroom Solutions, 1 invited Link Hygiene and 2 did not know which providers they invited.
 - (ii) Of the suppliers invited (and their names remembered), only Cathedral did not submit a bid/quote. All other respondents received quotes/bids from the invited named suppliers.
 - (iii) In response to the question which of the providers who submitted a bid/quote met their requirements, 2 said that PHS met their requirements and 1 said that Complete Washroom Solutions met their requirements. This suggests that PHS and Initial did not meet the requirements of 3 multi-regional customer each and Link Hygiene did not meet the requirements of 1 multi-regional customer.
- (g) When asked whether they expect the merger to have a good, neutral or bad impact on them as a customer, 8 of 11 multi-regional customers said 'neutral', 2 said 'bad' and 1 did not know.

The supply of washroom services to local and regional customers

1. In this appendix we assess the extent and nature of competition in regional and local areas serviced by both Rentokil and Cannon.

The views of the Parties

2. The Parties told us that there are a large number of suppliers able to compete with them in any given location, with over 100 national and regional providers of washroom services. The Parties said that, even on a conservative basis, there are at least six other large competing washroom specialists with a branch in every region where Rentokil operates a branch (and usually over ten providers).¹
3. The Parties noted that suppliers have incentives to service customers of all sizes as, in so doing, the business generates operational efficiencies by increasing route density. Given this, the Parties said that regional and local customers have an abundance of choice from a multitude of other washroom service suppliers, including those that operate local routes, as well as alternative suppliers such as FM companies, cleaners and waste companies.²
4. The Parties said that its analysis of local competition and Rentokil customer losses on a branch-by-branch basis showed that there can be no reasonable basis on which the Merger will result in an SLC in the supply of washroom services at the local/regional level.³

The Parties' local and regional analysis

5. Rentokil submitted two pieces of empirical analysis to shed light on the local and regional aspects of competition, which were undertaken by RBB Economics.⁴ The first of these looked at local competition in washroom services using an analysis of fascia within the Parties 'catchment areas'. The second is an analysis of customer losses on a branch-by-branch basis using data gathered from Rentokil's branch managers.

¹ Parties' response to phase 1 decision, 30 July 2018, paragraph 4.3 and 4.4.

² Parties' response to phase 1 decision, 30 July 2018, paragraph 4.3.

³ Parties' response to the issues statement, 31 August 2018, paragraph 3.5.

⁴ [X]

The Parties fascia analysis

6. Turning to the first, RBB constructed 80% and 95% catchment areas⁵ for both Rentokil and Cannon's branches using postcode districts allocated to each branch.⁶ RBB assessed the number of competitors located within a catchment area.
7. With regard to competitors that provide all seven service lines, it finds that either there is no change as a result of the merger or the parties' branches have at least four (and frequently more) competitors in their catchment areas, aside from Inverness. The Inverness catchment results in a '3 to 2' concentration using the 80% catchment area, and '4 to 3' using the 95% catchment area.
8. RBB's further analysis of the Inverness area finds that if the 70% catchment was used, there would be no overlap with Rentokil's branch (Inverurie): hence the Rentokil branch is relatively close to the outer edge of the 80% catchment area. RBB noted that if the 95% catchment area is used there are competitors (as shown in Figure 1)⁷ which will not be in a materially worse position to constrain the Inverness branch post-merger. It noted that using the 95% catchment which the parties argue is a more meaningful comparator gives a fascia change of '5 to 4' for Rentokil's Inverness branch and '4 to 3' for Cannon's Inverurie branch.
9. RBB further argues that FM companies and self-delivery are 'conservatively excluded'.⁸ Figure 1 below illustrates the Inverness and Inverurie areas with branch locations of the Parties and their competitors.

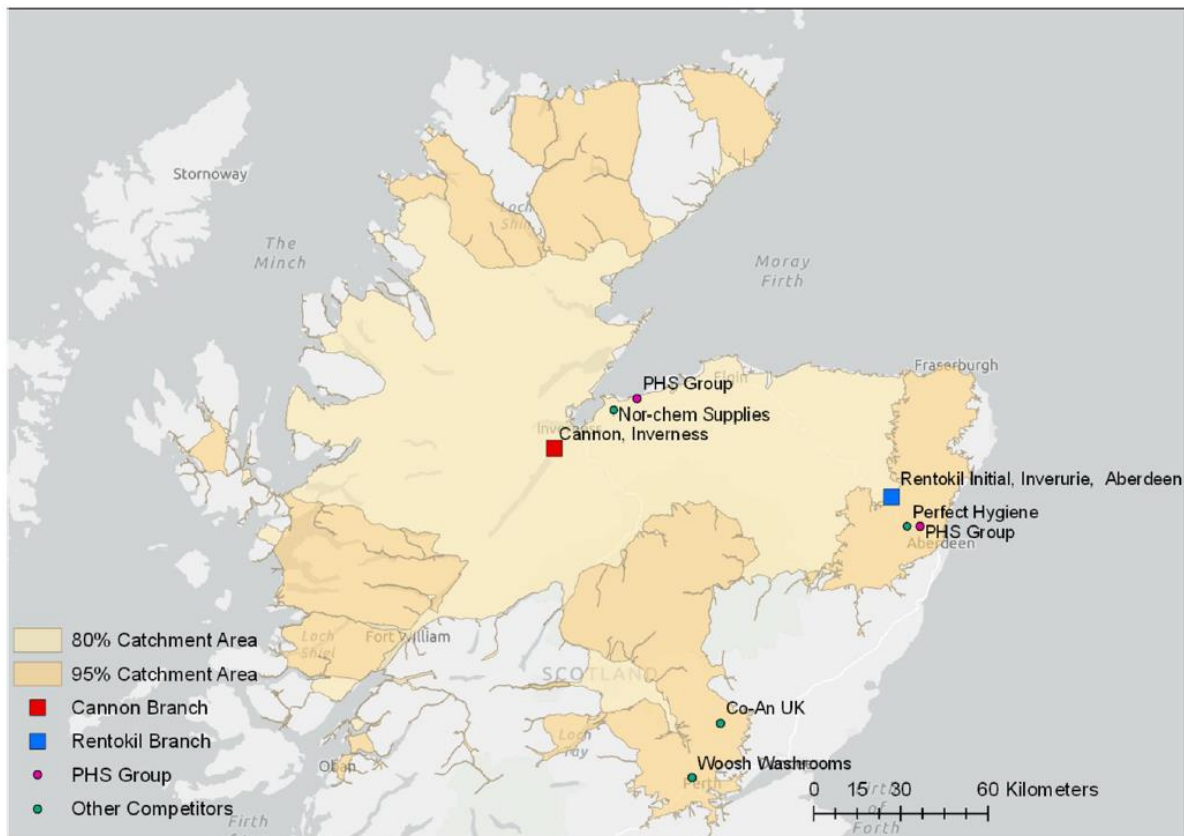
⁵ Catchment areas are calculated using the shortest drive time (or distance) within which, in this case, 80% or 95% of value (or customers) are found.

⁶ [REDACTED]

⁷ [REDACTED]

⁸ [REDACTED]

Figure 1: Cannon's Inverness Branch and surrounding catchment areas⁹



Source: RBB's analysis of the Parties' data.

Rentokil's customer loss analysis

10. RBB's second piece of empirical analysis uses a survey of branch managers to identify the competitors to which Rentokil lost custom (either complete contract terminations or reductions to existing contracts) between January 2017 and June 2018.¹⁰ The same information was not available from Cannon.
11. Its main conclusions from this analysis were that PHS is by far the most important competitor to [REDACTED].¹¹
12. RBB also looked at the Gross Upward Pricing Pressure Index (GUPPI). It does this first for washroom services and then filters for losses on waste disposal specifically. It finds the loss of competition from Cannon is unlikely to give rise to material upwards pressure on Rentokil's price.

⁹ [REDACTED]

¹⁰ [REDACTED]

¹¹ [REDACTED]

13. In summary, on the basis of the analyses, the Parties submitted that¹²:
- (a) Material competition remains in each area in which the Parties are active;
 - (b) The Parties are not each other's closest competitor, which is PHS;
 - (c) FMs, cleaning companies and other washroom service providers actively compete, and self-supply by customers is a competitive constraint; and
 - (d) The Transaction will not result in material upward pricing pressure at the local or regional level.

CMA assessment

14. We have examined a range of evidence on regional and local competition in the supply of washroom services, including:

- (a) An assessment of the number of competitors operating in the catchment areas of Rentokil's and Cannon's branches ('Fascia count analysis').
- (b) Evidence from competitors.
- (c) The Parties' internal documents.
- (d) The GfK survey.

15. Further detail on each of these is set out below.

CMA Fascia Count Analysis

16. The CMA conducted its own analysis of the number of competing supplier branches within the parties 80% catchment areas of Rentokil's and Cannon's branches. We also reviewed the number of effective competitors in each of the UK's 12 regions. The analysis is set out below.

Data on competitors

17. We requested two datasets from the Parties. Firstly, a list of competing supplier branches which are located within catchment areas (defined by postcode areas) within which 70% and 80% of customer sites (by 2017 revenue) were located. We requested data on the identity of the competing supplier, their branch locations, the type of supplier, the services line(s) they

¹² [Parties' response to the issues statement](#), 31 August 2018, paragraph 5.4.

provide, and whether they are a national or regional competitor. The Parties calculated these catchments based on drive time.

18. The second dataset was a list of washroom services suppliers that the Parties consider to be competitors, which are either located in, or targeting customers located in, the 12 UK regions. We requested the Parties provide data on the identity of the competing supplier, their branch locations, the type of supplier, the services line(s) they provide, and whether they are a national, multi-regional or regional competitor.
19. The Parties also submitted a list of competitors which sub-contract some or all of their service lines to the Parties. They included the identity of the competitor, the value of the services subcontracted to the Parties, the services lines which they subcontract to each Party, the geography served by that branch, and the Parties' believed reason for subcontracting. This was used to verify whether competitors were subcontracting a significant number of service lines to the Parties.
20. The Parties provided information on whether each of their competitors operate their waste disposal services in-house or outsource. This was used to verify whether these were operating as effective competitors in waste disposal.
21. Where we received data directly from third parties, we verified or corrected the data provided by the Parties.
22. Within the PHS questionnaire response was a list of 23 branches from which it supplies washroom services. The Parties' dataset contains 38 PHS sites. Therefore, we have used the site list provided by PHS, which meant we excluded 16 PHS sites identified by the Parties, and included one additional in Cardiff not identified by the Parties.
23. Within Northern Countries Cleaning Limited's (NCCL) questionnaire response, it provided details about which service lines they offer. We used this NCCL data on service lines offered.
24. From our discussions with Berendsen, we determined that they are a laundry and workwear rental business which supplies washroom services to its customer by outsourcing to PHS and 14 other smaller regional washroom specialists. We did not therefore consider Berendsen to be an independent competitor and have not included it within our fascia counts.
25. The Parties did not submit information about the services offered by three competitors: Monitor Services, Supreme Hygiene, and United Hygiene Services. We have followed up with the Parties, and established that

Supreme Hygiene and United Hygiene Services offer all seven washroom service lines. The services that Monitor Services remains unknown and is therefore not included within our fascia counts as a precaution.

26. No further adjustments were made to the data provided by the Parties.

Methodology for identifying effective competitors

27. We first used the internal documents submitted by the Parties to establish whether the competitors offered waste disposal services. For those that did, we determined whether they were effective competitors as described below.
28. We verified whether the competitors presented by the Parties were present in internal documents produced in the ordinary courses of business. Using five internal documents,¹³ we verified that these competitors were mentioned by name and that they offered waste disposal services. For seven competitors which were either not mentioned in their internal documents, or did not provide waste disposal services, we requested clarification from the Parties.
29. Then using the data supplied by the Parties, which we verified with third-party data wherever possible,¹⁴ we used several assumptions to establish which competitors were effective.
30. We assume that competitors who are classified as offering 'cleaning and hygiene supplies', 'cleaning materials', 'online suppliers', or 'washrooms and chemicals' are not effective competitors.
31. We excluded the Independent Washroom Services Association from the local analysis as it is a member-based association, and washroom services are offered by its members whose sites have already been included in the dataset.
32. Using our methodology and the data on competitors which sub-contract services to the Parties¹⁵, we identified those providers, which subcontracted non-essential services or small values to the Parties as effective competitors. These are: Absolute Hygiene, Mayflower, Medicare, Mint Hygiene Ltd, Principal Hygiene, and Target Hygiene.
33. Using the data on whether competitors offer Waste Disposal services in-house or outsource, we checked that the competitors offer waste services in-

¹³ [REDACTED]

¹⁴ For PHS and for eight other competitors which submitted a response to the CMA.

¹⁵ This relates to cases where a competitor to the Parties holds a contract with a customer to supply washroom services and has subcontracted part of the provision to the Parties.

house. The Parties submitted that they believe that competitors generally provide waste disposal services in-house except for Berendsen and Hygiene Supplies Direct (HSD Online), which are excluded from our fascia count. The Parties said that some competitors also outsource on a geographic basis either via IWSA or via direct agreements.

Catchment areas

34. When assessing mergers involving a large number of local geographic markets the Authorities may examine the geographic catchment area within which the great majority of a store's custom is located. Catchment areas are a pragmatic approximation for a candidate market to which the hypothetical monopolist test can be applied; the use of catchment areas is not an alternative conceptual approach. However, the geographic market identified using the hypothetical monopolist test will typically be wider than a catchment area.

CMA Results for Rentokil and Cannon branches

35. Tables 1 and 2 show, for each of the Parties' sites, the number of effective competitors other than the Parties within the 80% catchment areas. It includes three counts: one where we consider competitors to be effective only if they offer all 7 service lines, one where they are effective only if they offer 6 services lines or more (including waste disposal), and one where they are effective if they offer waste disposal services as well as any number of other service lines. Other things being equal, a competitor with more service lines should be more competitive than one with less service lines. However, it does not follow from this that suppliers with less service lines will not be effective competitors for local customers. CMA analysis of the Parties customer-level datasets find that that the average number of service lines purchased by Cannon and Rentokil local and regional customers is less than two.¹⁶ It is more likely that one of these service lines will be waste disposal services and that for suppliers to be fully effective competitors for local customers, it is advantageous to provide such services. For these reasons, we consider that suppliers are effective competitors for local customers if they offer waste disposal services as well as any number of other service lines.
36. In assessing whether there are local and/or regional competition problems, we used a 4 to 3 or lower fascia starting point, i.e. areas were considered to have a possible competition problem where, as a result of the merger, the number

¹⁶ For Cannon's local/regional customers the average number of service lines is [3<] and for Rentokil it is [3<].
[3<]

of fascia fell from 4 to 3 or lower. These areas were then assessed in more detail.

37. A 4 to 3 fascia count threshold has been used for mergers in the grocery sector while in other sectors, the CMA has often used a 5 to 4 fascia count threshold.¹⁷ Here we opted for a 4 to 3 fascia threshold for local and regional customers to take account of the constraint from self-supply.
38. The CMA has taken account of evidence on self-supply as a constraint in both washroom services and the supply of waste disposal. Analysis of Rentokil's customer loss data shows that, on average across all Rentokil's branches for washrooms services, between 10-20 % and 10-20% of customers losses were to self-supply.¹⁸
39. Using Rentokil's customer loss data at a branch level¹⁹ we can see that for areas that will move to a '4 to 3' using the six service line filter, self-supply operates as an additional constraint with customer losses in these areas to self-supply of around 20-30%²⁰. Similarly, for areas where we see waste disposal (plus any number of other service lines) move to '4 to 3' post-Merger, losses to self-supply are between 5-10% and 5-10%.²¹ This data relates to Rentokil branches only, similar data was not available for Cannon.
40. Other evidence in support of self-supply as a constraint is the GfK Report which shows that 13% of single site customers considered self-supply when appointing their current supplier and 10% of multi-site customers did the same.²² In response to the price diversion question, the revenue weighted diversion ratio to self-supply was 7% for single-site customers (after allocating don't knows), and zero for multi-site customers²³. The unweighted diversion ratio was 9% for single-site customers and zero for multi-site customers.²⁴ In response to the forced diversion question, the revenue weighted diversion ratio to self-supply was 6% for single-site customers (after allocating don't knows), it was zero for multi-site customers.²⁵ The unweighted diversion ratio was 8% for single-site customers and zero for multi-site customers²⁶, and 8%

¹⁷ *Retail mergers commentary*, (CMA62) 10 April 2017, paragraph 3.35.

¹⁸ [§<]The average of 10-20% includes customers losses where recipient was 'unknown', 10-20% excludes these.

¹⁹ [§<]

²⁰ [§<]The CMA included 'unknowns' in its calculation of the percentage lost to self-supply.

²¹ [§<]

²² GfK report, chart 11.

²³ GfK Report, chart 18.

²⁴ GfK report, Section 3.9.

²⁵ GfK report, chart 23.

²⁶ GfK report, Section 3.9.

of single-site customers self-supplied sanitary waste disposal at any of their sites as did 6% of multi-site customers.²⁷

Table 1: Cannon Local Fascia Count

		<i>80% Catchment (All 7 Services)</i>	<i>80% Catchment (At least 6 service lines)</i>	<i>80% Catchment (Offer Waste Disposal Services)</i>
	<i>Branch</i>	<i>Number of effective competitors remaining other than the Parties</i>		
Cannon	Ashford	6	12	12
	Barking	9	13	13
	Belfast	3	3	3
	Birmingham	7	12	16
	Blantyre	3	6	7
	Cardiff	3	11	11
	Dunfermline	4	10	11
	Exeter	4	8	9
	Inverness	1	1	1
	Kings Lynn	5	10	12
	Leeds	6	14	15
	Leicester	7	13	16
	Mitcham	4	9	10
	Morecambe	7	8	10
	Newcastle	2	3	4
	Park Royal	4	10	11
	St. Helens	8	10	11
Winchester	3	5	8	
Worsley	4	5	5	

Source: CMA Analysis of Data Submitted by Parties

Note: Highlighted cells indicated potential '4 to 3' (or fewer) areas.

²⁷ GfK report, Section 3.4.

Table 2: Rentokil Local Fascia Count

		80% Catchment (All 7 Services)	80% Catchment (At least 6 service lines)	80% Catchment (Offer Waste Disposal Services)
	Branch	Number of effective competitors remaining other than the Parties		
Rentokil	Belfast (Duncrue)	3	3	3
	Birmingham	8	13	17
	Brentford	2	8	9
	Bristol	3	8	9
	Cwmbran	3	10	10
	Edinburgh	2	5	5
	Fareham	2	4	5
	Glasgow	3	6	6
	Haydock	8	9	9
	Inverurie	2	2	2
	Leeds	6	14	15
	Leicester	11	17	22
	Maidstone	9	16	16
	Newcastle	2	3	4
	Okehampton	2	2	3
	Thetford	4	10	12
	Woodford	10	18	18

Source: CMA Analysis of data submitted by Parties.

Note: Highlighted cells indicated potential '4 to 3' (or fewer) areas.

41. Tables 1 and 2 show that when considering an 80% catchment area, and filtering only for competitors which offer all seven service lines, the merger results in a '4 to 3' or worse in seven catchments: Inverness (Cannon), Newcastle (Cannon/Rentokil), Brentford (Rentokil), Edinburgh (Rentokil), Fareham (Rentokil), Inverurie (Rentokil) and Okehampton (Rentokil).
42. Filtering for competitors offering six service lines or more results in a '4 to 3' or worse at only Inverness (Cannon), Inverurie (Rentokil) and Okehampton (Rentokil). Across both Parties, this filter includes an additional 36 competitors within the fascia count. For 26 of these new competitors, the service line which they do not offer is toilet tissue.
43. Using the filter of competitors offering waste disposal service as well as any number of other service lines, the merger results in a '4 to 3' or worse at only Inverness (Cannon) and Inverurie (Rentokil).
44. We carried out a more detailed assessment for Inverness and Inverurie. As shown in Figure 1, the Parties' depots are on or close to the edge of the others 80% catchment areas. Each of the Parties have a number of competitors much closer to them than the other Party. Our view is that the Parties are not close competitors in these two areas.

CMA results for regional fascia count

45. We also examined the number of competitors in each of the UK's 12 regions. Table 3 below shows the number of effective competitors for each region.
46. We find that there are a number of competitors in each region offering all seven washroom service lines (and a greater number offering at least six service lines, including waste disposal). The 4 to 3 threshold is exceeded in all regions.
47. The region with the lowest number of effective competitors is Northern Ireland, although three competitors remain in the fascia analysis in addition to the parties (effectively a 5 to 4 merger). [REDACTED].²⁸ In addition, we also note that Mayflower, which has a site in Dublin, also serves Northern Ireland.²⁹

Table 3: Regional Fascia Count

Region	No. Cannon Branches	No. Rentokil Branches	Competitors that offer all 7 services	Competitors that offer at least 6 service lines
			No. Effective Competitors other than the Parties	
East Midlands	1	1	8	10
East of England	1	1	9	20
London	3	2	9	18
North East	1	1	3	5
North West	3	1	7	9
Northern Ireland	1	1	3	3
Scotland	3	3	6	12
South East	2	2	10	17
South West	1	2	5	9
Wales	1	1	3	10
West Midlands	1	1	8	12
Yorkshire and The Humber	1	1	4	13

Source: CMA analysis of data submitted by Parties.

48. Competitors told us that there are many regional and local suppliers of washroom services. Several regional suppliers said that they compete with larger suppliers by offering better services to local customers.³⁰
49. The Parties' internal documents indicate that the Parties consider there to be a large number of regional suppliers of washroom services. A Rentokil document³¹ stated that [REDACTED]

²⁸ [REDACTED]

²⁹ [REDACTED]

³⁰ [REDACTED]

³¹ [REDACTED]

The views of third parties

Competitors

50. We sought the views of competitors and customers of Rentokil and Cannon.
51. PHS told us that the merger would not reduce competition for most local customers because there are many local suppliers in most areas of the UK.³² PHS also told the CMA that it and the Parties all compete very strongly for regional or local contracts, but regional and local competitors (such as Cathedral, Mayflower) are present.
52. With respect to regional competition, PHS told us that some regional customers would have reduced choice in the same way that national customers will. In regions where small suppliers do not have depots across the UK it would be costly and uneconomic for these suppliers to supply larger geographic areas. In these regions choice would be reduced from 3 to 2.³³
53. The nine regional competitors that responded to the CMA's questionnaire identified in most cases other regional suppliers as their competitors (alongside some or all of Cannon, Rentokil and PHS).³⁴ Four of these also identified Cathedral as a competitor.³⁵
54. Several regional providers said they compete with large providers by offering better services to local customers:
- (a) [X] told us that its advantages (over national competitors) is 'a more personal service with a stable workforce which provides continuity for the customer', and 'lower overheads and can therefore usually be price competitive'.³⁶
- (b) [X] told us that it only quotes on a quality service, whilst 'large national or multi regional companies generally tender purely on price, not quality of service delivery'.³⁷
- (c) [X] said its USP (unique selling proposition) is flexibility and quality, not price.

³² [X]

³³ [X]

³⁴ [X]

³⁵ [X]

³⁶ [X]

³⁷ [X]

- (d) [X] said ‘small independent washroom companies struggle against the nationals on price’, as the market become less service driven.
- (e) [X] told us that it has ‘a good service name’ and ‘with a competitive price, we can compete’.³⁸

Customers

55. Customers that responded to the CMA questionnaire were national or multi-regional, FM companies or framework organisations, hence these provided little insight on competition at the local level.

The Parties’ internal documents

56. [X]
57. We were provided with internal documents during our inquiry which suggest that there are a number of other local or regional suppliers active in the supply of washroom services which account for around 30% of the market.³⁹ National competition is discussed separately from regional competition.⁴⁰ A summary of relevant documents is reported below.
- (a) A document showing the map of its main regional and national competitors in hygiene services. Cannon reported [X].⁴¹
- (b) An extensive list of around 60 competitors (other than PHS and Rentokil) which are active in the general hygiene sector both at national and regional level. In particular, Cannon identified [X].⁴²
- (c) A 2015 strategy document submitted by Cannon’s former owner (OCS) where it is estimated [X].⁴³
- (d) In a 2016 strategy document submitted by Cannon’s former owner (OCS), it is reported that there are strong regional players in the washroom services market and that there are low barriers to entry at local level. When commenting on the competitive landscape, Cannon reports national competition as separate from regional competition and detailing different features such as the use of technology, incentive to retain large

³⁸ [X]

³⁹ [X]

⁴⁰ [X]

⁴¹ [X]

⁴² [X]

⁴³ [X]

customers, innovation as opposed to regional competition which 'excel at local knowledge'.⁴⁴

Barriers to entry and expansion

1. In assessing whether market entry or expansion in the supply of waste disposal to national and multi-regional customers might prevent an SLC, as per our guidelines we consider whether such entry or expansion would be timely, likely and sufficient.¹
 - (a) **Timely**: whether entry or expansion can be ‘sufficiently timely and sustained to constrain the merged firm.’² The Merger Assessment Guidelines note that: ‘The Authorities may consider entry or expansion within less than two years as timely, but this is assessed on a case-by-case basis, depending on the characteristics and dynamics of the market, as well as on the specific capabilities of potential entrants.’³
 - (b) **Likely**: whether firms have the ability and incentive to enter the market.⁴
 - (c) **Sufficient**: whether the scope or scale of entry or expansion would be sufficient to act as a competitive constraint to deter or defeat any attempt by the merged firm to exploit any lessening of competition resulting from the merger.⁵
2. For an SLC to be prevented, all three of these criteria would have to be met.

The views of the Parties

3. The Parties told us that the barriers to entry in the washrooms sector are low and, in light of recent market developments are decreasing.⁶ The Parties said that in order to compete, a provider only need have:
 - (a) Access to washroom equipment, either manufactured by the firm or purchased from third party manufacturers or distributors.
 - (b) Access to consumables, which are commodity products, again either manufactured by the firm or purchased from third parties.

¹ *Merger Assessment Guidelines*, paragraph 5.8.3.

² *Merger Assessment Guidelines*, paragraph 5.8.11.

³ *Merger Assessment Guidelines*, paragraph 5.8.11.

⁴ *Merger Assessment Guidelines*, paragraph 5.8.8.

⁵ *Merger Assessment Guidelines*, paragraph 5.8.10.

⁶ Parties’ response to phase 1 decision, 30 July 2018, paragraphs 6.47 to 5.52.

- (c) Access to delivery and collection services, using either employ drivers and owned/leased vehicles or delivery/collection services purchased from third parties.
 - (d) Leased premises (although, as subsequently noted, the Parties more recently understand that [redacted], for example, may not have such premises).
 - (e) Front line sales and administrative staff.
 - (f) Access to marketing and business development channels.
 - (g) In the case of waste disposal service, an upper tier waste carriers Licence which is £154 and £105 to renew every three years.
4. As discussed in the assessment of competitive effects, the Parties told us that OSS (On site servicing) is a major development in the industry and has not only reduced the capital requirements but also increased the number of potential providers that can provide washroom services. The Parties said that OSS provision is easier than bin-exchange, the relative ease of this means a greater number of providers can now provide this service because it lowers the entry requirements by:
- (a) Lowering the capital requirements to start up, for example no industrial washer is required.
 - (b) Lowering the cost of providing washroom services.
 - (c) OSS has increased the ability for consumables to be stored in vans, thereby reducing the frequency of depot visits it is much easier for smaller competitors to serve more dispersed customers by increasing the range that a single depot might service.
5. The Parties estimate that the total investment per branch would be in the region of £600,000–£700,000.⁷ This would include premises, vans, equipment and staff.⁸ Rentokil estimate that the infrastructure could be established over a three-month period with the hiring of staff taking place concurrently.⁹
6. In relation to barriers to expansion, the Parties told us that expansion to a national footprint does not require significant capital, technology or capability over and above local entry. The Parties estimate that six branches would be

⁷ The Parties said that this estimate is based on the work of 10 employees per branch and noted that new entrants may not have enough work to occupy 10 employees, in which case a lesser investment would be required.

⁸ [redacted]

⁹ [redacted]

sufficient to form a national network of depots to serve national customers in Great Britain but noted that not all competitors – e.g. [REDACTED] – used a branch network model.

7. Beyond OSS, the Parties told us that market developments in recent years from new or potential, significant market entrants have increased competition. The Parties told us that:¹⁰
 - (a) [REDACTED], a washroom service supplier is partnering with cleaning and hygiene supplier [REDACTED].¹¹
 - (b) In 2017, French company Elis, which provides washroom services outside of the UK acquired the UK based workwear rental and laundry firm, Berendsen.
8. Finally, the Parties also told us that it would be easy for specialist non-washroom waste providers to enter the provision of washroom waste disposal. From there it would be easy to expand to provide a full washroom service. The Parties cited the example of Health Care Environmental Group, a specialist medical waste provider which they understood to provide the full range of washroom services and which has sites across the UK.

The views of third parties

9. PHS told us that it was relatively easy to enter at a local level, but much more difficult to expand nationally. PHS told us that scaling up requires significant investment in IT, depots, vehicles, staff, customer service and account management capabilities and that expanding nationally can be a long process, as it can take up to 18 months to two years to identify the right site for a single new branch, lease it and get the required licenses.¹²
10. PHS also told us that given the industry grows with GDP, it is difficult to grow nationally purely through organic growth.¹³
11. In relation to adjacent market entry, PHS said larger waste providers have a preference to service larger quantities of waste and larger bins stored outside buildings rather than having to deal with the complexity of going inside to service washrooms.

¹⁰ [REDACTED]

¹¹ [REDACTED]

¹² [REDACTED]

¹³ [REDACTED]

12. PHS said that site based facilities management companies will be unable to compete effectively with specialist washroom providers since washroom servicing requires competence and expertise in setting-up a route-based service business.¹⁴
13. PHS told us that one of its greatest strengths as a large national washroom provider was its ability to do handle customers' ad-hoc service requests and different service preferences.¹⁵ FM providers would need to establish, on top of the infrastructure, the capability to manage ad hoc or scheduled waste collection, as well as comply with waste disposal and associated regulations, establish driver training, vehicle fleet management and handle OSS/bin-exchange preferences.¹⁶
14. PHS told us that there is an inherent challenge as to what comes first in expansion – namely acquiring the customer or the operational site (which is necessary to enable the supplier to service that customer). PHS told us that there would be a significant financial risk in expanding without customers and that, in its view, a competitor is highly unlikely to get sufficient customers without having the operational sites required to service those customers. PHS said that a key barrier to expansion in the washrooms sector is the national infrastructure that it, Rentokil and Cannon have but which others do not have. Cathedral told us that in its experience barriers to entry in the industry are 'low'.¹⁷ [redacted].¹⁸
15. Cathedral said that competition outside the washroom service companies should be considered. Cathedral said that at various times both Rentokil and OCS/Cannon have operated facilities management companies and there is no reason why an FM company could not develop their own specialist washroom service business.¹⁹
16. Mayflower told us that although there are barriers, local entry is reasonably easy as none of the barriers are insurmountable. Mayflower sees 'no reason why new entrants can't flourish'.²⁰
17. In relation to expansion, Mayflower told us that expansion by regional players depends on their desire, risk appetite and finances. Mayflower started in South East of England, but now has a national network of five (soon to be six) depots to serve the whole of the UK. It added depots to its network over the

14 [redacted]
 15 [redacted]
 16 [redacted]
 17 [redacted]
 18 [redacted]
 19 [redacted]
 20 [redacted]

last 18 years to meet requests by clients like [redacted] to deliver services in other regions of the UK.²¹

18. Mayflower told us that smaller businesses can be acquired to gain a foothold in a new region, and Mayflower has adopted this strategy to expand to Manchester and Swindon. The soon to be opened newest depot in the East Midlands however will be Greenfield expansion, i.e. built from scratch. Mayflower believe this method has been the preferred way to expand in the last 10 years in the industry.²²
19. Mayflower is not aware of any firms entering the market in the last 10-15 years as a national service provider. Companies usually enter as a regional player and expand. Mayflower told us that there are no legislative barriers to national expansion.²³
20. Berendsen told us that there are a number of barriers to entry to waste disposal services, including:
 - (a) The logistics required to collect waste – there are costs associated with removing waste from washrooms.
 - (b) Waste storage – waste needs to be stored. Berendsen’s laundry warehouses are typically in residential areas and space to store waste would be limited. The premises themselves could be fairly modest but some means of cleaning sanitary bins would be required.
 - (c) Obtaining licences to transport waste.
 - (d) An entrant would also require capital in order to purchase the washroom equipment, which is typically rented to customers
 - (e) Segmenting its vehicles to carry waste whilst avoiding contamination of clean items.
 - (f) Acquiring the density of customers required to make a viable business would take time.²⁴
21. [redacted] told us they do not consider the barriers to small scale entry to be huge, but to supply a large customer like a supermarket, companies like PHS and Rentokil Initial have a lot of expertise, which acts as a barrier to expansion.²⁵

²¹ [redacted]

²² [redacted]

²³ [redacted]

²⁴ [redacted]

²⁵ [redacted]

22. [X]²⁶ ([X]) have two depots, one in Walsall and a second one, only recently opened in Rugby. [X] told us that, for a new supplier, entry can be extremely hard as all business is on contract and the bigger named companies generally can charge low prices to keep the independents out, as the sales are hidden in a multimillion pound company. This would generally be a cost generated review.²⁷
23. [X] provide washroom services across the central belt of Scotland and told us that it is relatively easy to start a company in this sector, the main barrier is managing cash flow and generating income while waiting for prospective customers to finish existing contracts with their current washroom provider due to the multiyear contracts most current providers use.²⁸
24. [X] told us that entry in general terms is easy but said that the real problem is joint public sector purchasing arrangements and also limited term contracts. [X] told us that the entry costs would be massive for a relatively small return as Rentokil and PHS keep the headline cost for feminine hygiene low and making the money up on other products such as air fresh units, nappy bins, vending machines, etc.
25. [X] said they could make money on these contracts in the same way but it would cost a lot to buy the equipment and, crucially, the contract terms are short (usually a year) excluding [X] from these contracts because of the borrowing costs would take longer to pay back. [X] said this is a 'huge problem' in the North East where the public sector is extremely important.²⁹
26. TWC Facilities Ltd are a washroom provider based in North East and Yorkshire and have two sites in Thirsk and Halifax. TWC told us that it is 'Relatively difficult for a start-up business due to the capital requirement to grow.'³⁰
27. We spoke to a committee member of the [X] who told us that the market is reasonably easy to break into but it is hard to compete against good incumbents. To expand a new starter would tend to offer 'rock bottom' prices.³¹
28. [X] recently acquired a competitor in a neighbouring region, South Wales. [X] told us that it had the resources to take advantage of this opportunity but

²⁶ [X]
²⁷ [X]
²⁸ [X]
²⁹ [X]
³⁰ [X]
³¹ [X]

many local or regional players would not have the available resources to take advantage of this.³²

29. A presentation given the board of OCS in relation to the potential sale of Cannon called 'UK Merger Control Implications' says that barriers to entry and expansion are low.³³ In relation to barriers to entry and expansion the presentation says:

*No regulatory requirements to providing washroom/hygiene services-
Feminine hygiene and nappies merely 'offensive waste' not regulated and
given to landfill with plenty of available suppliers*

No technical requirements to perform the services

*All inputs/components are typically manufactured by third parties- Often
manufacturers or their distributors are also competitors*

Can be provided on its own or as part of wider range of other services

*Only very few clients require the full range of washroom services from one
supplier, most want 2/3/4*

No limitation on subcontracting the services

*Already at least one association of washroom subcontractors with full
product and wide geographic coverage*

Not all 'national' customers require 'national' provider

30. However, an internal strategy document from 2016 called 'Regional Strategy Submission Plan Period FY16'³⁴ states that building scale is difficult:

'Low barriers to entry at local level

*Difficult to build scale –National –high investment in people, vans and
stock, property*

Legislation & licencing requires expertise & cost

Easy to obtain like-for-like products in FHU market and basic washroom'

³² [REDACTED]
³³ [REDACTED]
³⁴ [REDACTED]

CMA assessment of barriers to entry

31. We assess barriers to entry in relation to the supply of waste disposal services to national and multi-regional customers, including:
- (a) The ability and likelihood of firms in adjacent industries to enter the sector.
 - (b) Evidence of potential entry.
 - (c) The impact of OSS.
 - (d) The level of market demand.

Entry from adjacent industries

32. We consider whether entry from adjacent industries would be timely, likely and sufficient. We consider that entry is more likely to occur where an entrant to the market has some or all of the following:
- (a) A UK wide logistics business. Customers and competitors have told us that effective logistics are essential to providing a washroom service. As part of its deliberations over selling Cannon, OCS noted that *'There is conflict between site based services and route based services – the Cannon business line needs to be separated out and run completely independently from site based services.'*³⁵
 - (b) A reputation and brand. Reputation and brand would be an asset when competing against the well-known brands of PHS, Initial Hygiene and Cannon Hygiene. Brand and reputation are crucial factors in the ability of a supplier to expand. An entrant with a reputation and brand recognition is likely to have a greater chance of acquiring customers than an entrant with neither.
 - (c) An established customer base that procure washroom services. Having a customer base (even if in a different market), will provide a greater opportunity to establish an initial customer base.
 - (d) The capital and/or infrastructure required to support scaled entry. Companies with experience of entering new markets (or the washrooms market outside the UK) are likely to be more credible entrants.
 - (e) Industry know-how.

³⁵ [3<]

33. The Parties told us that waste disposal companies would find it easy to expand into washroom waste management. Although most facilities management companies outsource the washroom component of facilities management contracts, the Parties told us that these services could be brought in-house.
34. In relation to waste disposal, we note that:
- (a) the cost of acquiring the relevant licences to transport and dispose of waste is not prohibitive. The regional accreditation requirements mean that it may be cumbersome to acquire these licences but this is unlikely to constitute a particularly large barrier to obtaining a licence. This is supported by the large number of businesses with waste carrier licences. The Environment Agency maintains a publicly available register of all licences in issue.
 - (b) The Environmental Protection Act 1990, s.34[1]; Duty of Care Regulations 1991[2] imposes a duty of care on any person who imports, produces, carries, keeps, treats or disposes of controlled waste or, as a broker, has control of such waste.³⁶ However, washroom waste does not have any special disposal requirements, e.g. incineration, it can be disposed of in landfill. Some washroom providers outsource the disposal of washroom waste to specialist waste management companies.
35. In relation to facilities management companies, we note that, despite the low cost of acquiring licences and the relative ease of disposal, facilities management companies typically outsource waste disposal along with the other washroom services. Further, despite having the licences to do so, few waste management companies collect washroom waste from washroom customers. As noted above, there may also be barriers to a site based facilities management company entering a route based logistics business.
36. In relation to waste management companies, we received responses from two waste management companies, [X] and [X]. They told us that they do not visit end-client buildings to service washrooms. These companies can and do collect other waste from washroom service providers which means they are not direct competitors to washroom service providers. Rentokil told us that they disagree with this assessment, quoting HEG as an example to

³⁶ A transfer note has to be completed and signed at the same time as the written description of the waste is transferred. Every waste producer is responsible to ensure that all sanitary waste is handled in a proper manner from storage on site, through collection and disposal. Compliance also means appointing responsible contractor that has a valid waste carrier's certificate

demonstrate that it is likely for small volume waste collectors to go to end-client buildings to service washrooms.³⁷

37. In this regard, we note that specialist washroom providers provide waste collection in conjunction with the provision of other washroom services and that it is more economical to provide more than one service to a customer site. As noted above, the waste management companies we spoke to, told us that they had no plans to enter the servicing of client washrooms and that it is less economical to provide one service when visiting a washroom.
38. The Parties provided us with two examples of companies in adjacent markets that they believe are entering the UK washrooms market. After speaking to both the relevant companies, we outline their respective plans below.

Evidence of planned entry

39. The Parties told us that:
- (a) [X], a washroom service supplier is partnering with cleaning and hygiene supplier [X].³⁸
- (b) In 2017, French company Elis (the largest washroom service provider in France and market ‘leader in most of the 28 countries in which [it] operate[s]’³⁹), which provides washroom services outside of the UK acquired the UK based workwear rental and laundry firm, Berendsen.
40. The Parties told us that Elis has a very successful model across the markets they operate in and that model involves the in-house delivery of washroom services. The Parties told us that the stated purpose of the acquisition was for Elis to extend its model and reach into the UK; the Parties told us that it is therefore logical to conclude that the previous outsourcing arrangements of Berendsen will be internalised within the Elis model.
41. We spoke to Bunzl and Berendsen/Elis to understand their intentions.

Bunzl plc

42. Bunzl are a distribution company who supply washroom consumables to end users, including FM’s and washroom specialists. [X].

³⁷ [X]

³⁸ <http://www.libertyhygiene.com/news/liberty-works-with-bunzl-cleaning-hygiene-supplies/>

³⁹ <http://www.corporate-elis.com/en/about-us>

43. Bunzl told us that it has been considering partnering [REDACTED]. However, to date, this has not occurred.⁴⁰
44. Bunzl said that it is interested in and actively considering small scale entry into the washrooms market. [REDACTED].⁴¹
45. Bunzl believes it will enter over the next 12 months. Entry will be at a 'gradual' pace, and will involve starting locally. In spite of not having any firms plans Bunzl is clear that it does not intend to enter as a national player, preferring to develop initially as a 'significant niche' player, most likely in the South East.
46. National expansion would only follow if the business was successful locally. Bunzl envisages that it will initially supply washroom services to its current customers (eg facilities management companies), and does not believe it will compete with the likes of PHS for large end-customers like supermarkets.
47. We asked Bunzl if they had considered how they would enter and were told that Bunzl is considering both greenfield and brownfield [REDACTED] entry, but has not decided yet.

Berendsen and Elis

48. Berendsen are predominantly a linen and work wear hire and laundry firm who delivers its services directly to end users. Elis, a French company that provides linen and workwear services in Europe, also provides washroom services. Elis acquired Berendsen in 2017.
49. Berendsen provides washroom services to some customers, but this is mainly outsourced to PHS and a number of smaller suppliers and Berendsen does not have any washroom service capability. [REDACTED]
50. [REDACTED]. Berendsen told us that the outsourced washroom services represent a small revenue stream and a small number of customers. As such, Berendsen said that it was not ready to capitalise on this change to supply the UK washroom sector directly.⁴²
51. Berendsen said [REDACTED]
52. Berendsen told us [REDACTED]
53. Berendsen said [REDACTED]

⁴⁰ [REDACTED]

⁴¹ [REDACTED]

⁴² [REDACTED]

54. Berendsen [REDACTED]

The impact of OSS

55. As described in Chapter 2, Rentokil has, in recent years, has been moving more and more of its waste disposal business to OSS. The Parties have described this as a recent market development that has lowered the barriers to entry and expansion. Rentokil believes OSS to be a market development, for which it changed its operating model and therefore changes the game for future entrants at scale.

56. Our discussions with third parties have confirmed OSS is not a recent development. PHS told us OSS has been around for a long time and South West Hygiene, which only provides OSS, said that it has done so for a long time.

57. OSS removes the capital requirement to purchase an industrial washing machine. [REDACTED].⁴³

58. The Parties also said that OSS has significant on-going operational cost savings. [REDACTED].⁴⁴

59. [REDACTED]

60. The savings are forecast and the Parties told us they can only be realised when almost all customers have switched to OSS. For example, a washing machine can only be switched off once all the customers from that site are using OSS. The Parties told us that the following have been achieved:

(a) [REDACTED]

(b) [REDACTED]

61. As they have not yet been achieved, it is difficult to verify the validity of the potential savings of OSS.

62. PHS told us that there is little difference in the cost to provide OSS compared to bin replacement because the bin exchange model means the bins are exchanged and machine washed off customer premises, whilst the liner exchange model can be less time efficient because staff need to spend more time on site to clean the bins.⁴⁵

⁴³ [REDACTED]

⁴⁴ [REDACTED]

⁴⁵ [REDACTED]

63. From speaking to other competitors, we do not consider that it is a recent market development. We consider that whilst it may be a lower cost of entry, therefore a relevant factor it is not a recent market development that has lowered the cost of entry.

Level of market demand

64. One of our considerations in assessing barriers to entry and expansion is an assessment of likelihood. In assessing likelihood, the attractiveness of the market may be a helpful indicator as to the likelihood of entry or expansion. A profitable or rapidly growing market is more likely to attract entrants or encourage others to expand. Conversely, a market in decline or one in which competitors are not profitable may reduce the likelihood of entry or expansion.
65. We have been told by the Parties, and a number of third parties that the market in the UK grows in line with GDP. PHS said the market is currently growing at around 2-3% per year and the reason it grows in line with GDP is that firms tend to outsource a higher proportion of services in a growing economy.⁴⁶
66. As outlined in Chapter 2, both the Rentokil and Cannon have been growing their washroom revenues, as has Cathedral. Conversely, PHS told us that between 2014-16, its revenues fell by 1.1%, while they estimated that smaller regional players' turnover went up by 8-9%.
67. Rentokil's annual report and accounts states that the market offers good growth opportunities due to factors that include:⁴⁷
- (a) Changing demographics – growing and aging population creating more health issues and hygiene product requirements.
 - (b) Rising customer expectations – increasing awareness of hygiene in workplaces.
 - (c) Tighter regulations – greater compliance with workplace hygiene and environmental standards.

⁴⁶ [REDACTED]

⁴⁷ [REDACTED]

Regulatory barriers

68. We have not been provided any evidence that the regulatory barriers are more complex at the national level than local entry. However, as licences have to be acquired regionally they will be commensurately harder to acquire. There appear to be no major technical or technological advantages to incumbents preventing national entry.
69. With scale IT and technology systems may be more important. Potentially larger customers have more sophisticated requirements. For example, we know that Rentokil uses handheld mobile devices ([REDACTED]) to generate information for management reports. We also know that Rentokil offers online hub ([REDACTED]) Online Reporting Tool, where customers can access customer support, e-learning and information on services and invoicing.
70. Similarly, Cannon uses Customer Relations Management technology ([REDACTED]) to ensure that teams are working from the same platform and have all key information at hand.
71. With a key part of profitability driven by route and product density a national entrant would be taking a commensurately higher risk compared to a local entrant in trying to build that density without access to a ready customer base. In this regard we note that PHS told us they are very good at holding onto national customers.

Capital

72. The capital required to enter national is commensurately higher, depending on the scale, making national and multi-regional entry more difficult than local and regional entry. We also note that an entrant would need to acquire national customers without a national network, but investing in a national network may be risky if there is no guarantee of gaining national customers.
73. Northern Counties Cleaning Limited told us that there is significantly more capital required upfront to acquire the products that are leased to large customers and that this is a barrier to acquiring larger customers. Rentokil challenged this view, stating that it is often possible to invoice the customer for the cost of implementation, therefore limiting the upfront cash outlay. It also noted that some customers also prefer to buy the units outright and only pay for servicing.
74. The evidence suggest that capital is a bigger barrier when entering the national market. There has been no scaled entry in recent years. We note that the national incumbents benefit from reputation, brand awareness and an already established national network.

75. Adjacent industries have some characteristics that may facilitate entry but it is unclear if there are currently sufficient incentives to encourage this. Moreover, we have not identified any businesses in adjacent industries with firm plans to enter the UK washrooms market, any potential entry is not likely to be at scale and it may be many years before these potential entrants compete for large customers:
- (a) [redacted] is not planning to enter the UK washrooms market at a national but at the local level. Any national expansion would be subject to the success at the local level and potentially several years away.
- (b) Similarly, [redacted]
76. OSS may be a lower cost model of entering the washrooms market and the ongoing cost of providing washroom services may be lower, but OSS has been around for some time and is therefore not something we consider having lowered the cost of entry in recent years.
77. Most of the evidence received suggests that the barriers to entry at the local level are not high with the relatively high number of regional suppliers in the UK supporting this.
78. We note that large contracts require more upfront capital than smaller contracts and a new entrant may not be able to serve these contracts without first establishing a national network.

CMA assessment of barriers to expansion

79. An alternative route to become a multi-regional or national provider is through expansion. Expansion can be achieved through setting up a new site (greenfield), by purchasing an existing competitor (brownfield) or a combination of both.
80. As set out above, we received mixed evidence from third parties in relation to barriers to expansion. PHS said that expansion was difficult whilst Cathedral and Mayflower told us that the barriers to expansion are not insurmountable and that it is more of a question of risk appetite.
81. We note that both Cathedral and Mayflower started out as regional competitors and have expanded their geographical footprint providing us evidence of UK expansion.
82. Mayflower started in South East of England, but now has a national network of five (soon to be six) depots to serve the whole of the UK. It added depots to

its network over the last 18 years to meet requests by clients like [REDACTED] to deliver services in other regions of the UK.⁴⁸

83. Cathedral operates a different model to most specialist washroom providers. By not running a branch model Cathedral told us that they could service most of the UK, with some outsourcing, from just [five] depots. To expand into new areas, Cathedral requires a local sales agent and delivery technicians in that area with the ability to visit one of the depots (or for another driver to make deliveries to them). In areas which Cathedral does not serve, they subcontract out washroom services to other washroom service providers.^{49,50} Cathedral subcontracts to service just over [REDACTED].⁵¹

48 [REDACTED]
49 [REDACTED]
50 [REDACTED]
51 [REDACTED]