

# Completed acquisition by Ecolab Inc. of The Holchem Group Limited

Provisional findings report

Notified: 6 August 2019

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 [Some numbers have been replaced by a range.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

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## Glossary

# Summary

1. The Competition and Markets Authority (CMA) has provisionally found that the completed merger between Ecolab Inc. (Ecolab) and The Holchem Group Limited (Holchem) (the Merger) has resulted, or may be expected to result, in a substantial lessening of competition (SLC) in the supply of formulated cleaning chemicals (and ancillary services) to industrial food and beverage (F&B) customers in the United Kingdom (UK).
2. This is not our final decision. We now invite submissions from any interested parties on these provisional findings by **Tuesday 27 August 2019**.
3. Alongside these provisional findings, we have published a notice of possible remedies, which sets out the CMA's initial views on the measures that might be required to remedy the SLC that we have provisionally found. We also invite submissions from any interested parties on these initial views by **Tuesday 13 August 2019**.
4. We will take all submissions received by the above dates into account in reaching our final decision, which will be issued by 8 October 2019.

## The questions we must decide

5. We are required to decide three core questions in our inquiry.
6. First, whether a relevant merger situation has been created within the meaning of section 23 of the Enterprise Act 2002 (the Act). We have provisionally found that a relevant merger situation has been created.
7. The second question we must decide on is whether the creation of that relevant merger situation has resulted, or may be expected to result, in an SLC within any market or markets in the UK for goods or services. In this case, we have provisionally found an SLC has arisen, or may be expected to arise as a result of the Merger in the supply of formulated cleaning chemicals (and ancillary services) to F&B customers in the UK.
8. The final question we must decide on is what action we might take for the purposes of remedying any SLC we have identified. This is the subject of the notice of possible remedies we have published alongside these provisional findings, in which we discuss whether to, in effect, prohibit the Merger by requiring divestment of the entirety of Holchem, or whether any other measures could effectively remedy the SLC we have provisionally found.

## **The merger parties**

9. Ecolab is a global supplier in water, hygiene and energy technologies, providing cleaning, water treatment and sanitising products and services to customers operating in food service, food processing, hospitality, healthcare, industrial, and oil and gas industries. It supplies, among other products, cleaning chemicals and ancillary services to industrial and institutional customers in the UK, including to F&B manufacturers. It is incorporated in the United States (US) and listed on the New York Stock Exchange. Its global turnover in 2018 was approximately £11.3 billion (US\$14.7 billion).
10. Holchem is a UK based supplier of cleaning chemicals and ancillary services primarily to industrial customers active in the F&B industry, as well as distributors in the institutional segments in the UK and Ireland. Holchem is incorporated in the UK and before the Merger was owned by several individuals and family trusts.
11. We refer to Ecolab and Holchem collectively as the Parties.

## **Transaction**

12. On 30 November 2018 Ecolab acquired the entire share capital of Holchem.

## **Our investigation**

13. The Parties overlap in the supply of formulated cleaning chemicals (and ancillary services) to F&B customers and in the supply of formulated cleaning chemicals to institutional customers, both in the UK. We have not found it necessary to examine the supply of formulated cleaning chemicals to institutional customers in the UK and we note that the CMA's Phase 1 investigation did not find that this area could give rise to a realistic prospect of an SLC. We consider that this is a proportionate way in which to conduct our inquiry. The remainder of this summary is in relation to the supply of cleaning chemicals and ancillary services to F&B customers.
14. The Parties provide important products and services which are crucial to ensuring that places where food and beverages are manufactured, processed and packaged remain clean and hygienic and the food or beverage free from contamination.
15. We have assessed the Merger against a counterfactual of pre-Merger conditions of competition.

16. We have considered the Merger's effects with reference to the market for the supply of formulated cleaning chemicals (and ancillary services) to F&B customers in the UK.
17. We have assessed whether removing one party as a direct independent competitor might allow the merged entity to increase prices, lower the quality of its products or customer service (for example, technical support services), reduce the range of its products/services, and/or reduce innovation. This is a horizontal, unilateral effects theory of harm.
18. In our inquiry we have analysed data from the Parties about their gains and losses of customers over the past few years and about their bidding activity in formal tender processes. We sent questionnaires to competitors and to customers of the Parties, through which we have received detailed insight into the market and the competitive dynamic. In addition to conducting hearings with the Parties, we held calls with main competitors and large customers of the Parties. We also reviewed internal documents of the Parties.

## **Our provisional findings**

19. We have heard during our inquiry that reliability, backed-up by high quality technical support services, is important to customers. This is because of the potentially very high cost to customers of having their production disrupted by something going wrong in the cleaning process or because of the risk to public health and to the F&B manufacturer's reputation of a food hygiene incident. Some third parties have told us that these considerations are utmost in customers' minds when thinking about switching cleaning chemical suppliers, especially for larger customers. We have found that many customers do not switch frequently, they face material switching costs (eg in trialling a potential supplier) and many tend to view their supply options as being limited to a few large, established suppliers.
20. We have also found that customers vary in their requirements and preferences between suppliers, while suppliers vary in their areas of strength or expertise. Customers are therefore unlikely to view each of the major suppliers as being completely interchangeable for their particular requirements.
21. Our inquiry has found that the Merger substantially increases concentration in an already concentrated market. The Merger combines the largest supplier, Holchem, with another large supplier, Ecolab, creating a merged entity with a market share of 40-50% in the supply of formulated cleaning products (and ancillary services) to F&B customers in the UK. The merged entity will be around twice as large as the next largest competitor. The only other suppliers

of scale are Diversey Limited (Diversey) and Christeyns Food Hygiene (Christeyns). Given the differentiated nature of suppliers in this market, we consider that market shares give only a partial indication of the Parties' competitive strength. We have therefore examined the evidence on how closely the Parties compete. A merger between parties who compete closely could have a significant effect on rivalry and therefore on the extent to which the competitive process encourages firms to improve their offers to customers or to become more efficient and innovative.

22. We found that the Parties compete for the same types of customers, including across each of the food, dairy and beverage segments. Notwithstanding this, they do have different customer focuses to some extent. For example, Ecolab receives a significant proportion of its revenue from international contracts whereas Holchem does not have any such contracts. Customers who have international contracts told us that they would not consider a supplier who supplies on a UK-only basis.
23. We have looked closely at the Parties' gains and losses of customers as well as how they have competed in formal tenders. Both analyses indicate that the Parties are close competitors who generally face competition from some combination of each other and the two other large competitors (ie Diversey and Christeyns). Therefore, competition concerns could arise as a result of the Merger.
24. The gains and losses data show that Holchem provides a substantial competitive constraint on Ecolab. Indeed, based on this evidence it is Ecolab's closest competitor for lost and threatened accounts as well as in account opportunities. Ecolab's other main competitors are Diversey and Christeyns. From Holchem's perspective, Ecolab was a close competitor in a material number of cases with Diversey and Christeyns appearing to be even closer competitors.
25. A sizeable share of each of the Parties' revenue comes from customers won in formal tenders, which are typically used by larger customers. The data indicates that Holchem is by far Ecolab's closest competitor. No other rival competed against Ecolab for a greater amount of tender value or won more tender value in those instances in which Ecolab itself did not win. From Holchem's perspective, the tender data shows that Ecolab has been a significant competitor against it, together with Diversey and Christeyns. Both Parties usually competed with one or two of the other Party, Diversey or Christeyns and only occasionally competed against all three. We consider that this indicates that although there are four main competitors in this market, most competition for tendered contracts takes place between two or three

large providers. We have found that other suppliers compete against the Parties in very few instances.

26. We have also found that in formal tenders both Parties have provided strong competition against Diversey and Christeyns. Therefore, we think that the Merger would dampen the competition faced by these suppliers in addition to dampening the competition faced by the Parties themselves.
27. The gains and losses data and the tender data that we have analysed all suggest that the Parties are close competitors and face few other effective competitor
28. The qualitative evidence that we have collected provides corroboration of the quantitative data. Responses to our questionnaires to customers suggested that the Parties are close competitors. Holchem's large customers only identified Ecolab, Diversey or Christeyns as their first or second choice alternative to Holchem. Smaller Ecolab customers named Holchem as their best alternative whilst smaller Holchem customers thought Diversey or Ecolab would be their best alternative.
29. The Parties' internal documents indicate that Holchem is a strong constraint on Ecolab.
30. There are smaller suppliers. However, we have not found evidence that smaller suppliers, whether individually or collectively, will provide anything other than a weak constraint on the merged entity.
31. We do not think that expansion by smaller competitors will be timely, likely and sufficient to prevent or mitigate an SLC from arising in this case. In general, we consider that there are barriers to entry and expansion which will hamper new or existing rivals looking to expand to the size where they could constrain the merged entity in the UK.
32. We looked in detail at the possible expansion of Kersia Group (Kersia), a global supplier of cleaning chemicals which has recently started expanding into the F&B segment the UK. The evidence available to us, including Kersia's plans and internal targets, indicates that Kersia's expansion will not be timely, likely and sufficient to constrain the merged entity after the Merger.
33. Finally, we have considered the evidence on whether unformulated cleaning products, which are basic cleaning chemicals unmixed with other chemicals that provide additional qualities, offer some level of constraint on the Parties, who provide formulated cleaning chemicals. We have found that only a small proportion of customers would be able to switch to unformulated products and that they would typically only use these products for some of their



requirements. We have seen very little evidence of actual switching from formulated cleaning chemicals to unformulated products. Moreover, given how highly customers value the ancillary services from the Parties (which are not offered with unformulated products) we consider that customer switching to unformulated products would not offer a sufficiently strong constraint on the merged entity to prevent an SLC from arising.

34. In all, we have been struck by the consistency of evidence in this case thus far, which points to a competition concern.

## **Provisional conclusions**

35. We have provisionally concluded that the completed acquisition by Ecolab of Holchem:
- (a) has resulted in the creation of a relevant merger situation; and
  - (b) has resulted, or may be expected to result, in an SLC in relation to the supply of formulated cleaning chemicals (and ancillary services) to F&B customers in the UK.
36. We provisionally think that the adverse effect arising from the identified SLC could be an increase in prices, a lowering of the quality of the Parties' products or customer service (for example, technical support services), a reduction in the range of their products/services, and/or a reduction in innovation.

# Provisional findings

## 1. The reference

- 1.1 On 24 April 2019, the CMA, in exercise of its duty under section 22(1) of the Act, referred the completed acquisition by Ecolab of Holchem for further investigation and report by a group of CMA panel members (the Inquiry Group).
- 1.2 In exercise of its duty under section 35(1) of the Act, the CMA must decide:
- (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 an SLC within any market or markets in the UK for goods or services.
- 1.3 We are required to reach a final report by 8 October 2019.
- 1.4 Our terms of reference, along with information on the conduct of the inquiry, are set out in Appendix A.
- 1.5 This document, together with its appendices, constitutes the Inquiry Group's provisional findings published and notified to Ecolab and Holchem in line with the CMA's rules of procedure.<sup>1</sup> Further information, including a non-commercially-sensitive version of the Parties' response to the Phase 1 Decision, can be found on our webpage.<sup>2</sup>
- 1.6 In our Issues Statement from 14 May 2019 we said that we would focus our investigation on the area in which the CMA's Phase 1 investigation found that the Merger gives rise to a realistic prospect of an SLC.<sup>3</sup> That is, in the supply of formulated cleaning chemicals (and ancillary services) to F&B customers in the UK. In its Phase 1 Decision from 10 April 2019 the CMA said that it did not believe there is a realistic prospect of an SLC in the supply of formulated cleaning chemicals to institutional customers in the UK. In its Phase 1 Decision the CMA found that the Parties' combined share of supply is low, there are numerous alternative options to the Parties and the Parties were not close competitors.<sup>4</sup> Although this did not preclude us from considering competition effects on institutional customers, no new evidence has been brought to our attention by third parties. Therefore, our provisional findings

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<sup>1</sup> [Rules of procedure for merger, market and special reference groups \(CMA17\)](#), paragraphs 11.1–11.7.

<sup>2</sup> [Ecolab/Holchem webpage](#).

<sup>3</sup> [Ecolab/Holchem Issues Statement](#).

<sup>4</sup> [Phase 1 Decision](#).

concern only the supply of formulated cleaning chemicals (and ancillary services) to F&B customers in the UK.

## 2. The Parties

### Ecolab

2.1 Ecolab is a global supplier in water, hygiene and energy technologies and services to customers operating in the foodservice, food processing, hospitality, healthcare, industrial, and oil and gas markets.<sup>5</sup> Ecolab submitted that its business is divided into four 'segments':

- Global Industrial: this segment is divided into the water, F&B, paper, life sciences and textile care operating segments, which provide water treatment and process applications, and cleaning and sanitizing solutions, primarily to large industrial customers within the manufacturing, food and beverage processing, chemical, mining and primary metals, power generation, pulp and paper, pharmaceutical and commercial laundry industries.
- Global Institutional: this segment is divided into institutional, specialty and healthcare operating segments, which provide cleaning and sanitizing products to the foodservice, hospitality, lodging, healthcare, government, education and retail industries.
- Global Energy: this segment serves the process chemicals and water treatment needs of the global petroleum and petrochemical industries in both upstream and downstream applications.
- Other: this segment consists entirely of the pest elimination services.

2.2 In the UK, Ecolab supplies cleaning chemicals to industrial customers in the agriculture, F&B, life sciences and professional laundry services segments. It supplies institutional customers in the foodservices, hospitality, health, buildings and education/government segments. Ecolab operates seven production plants in the UK.

2.3 Of interest to our inquiry is Ecolab's supply of formulated cleaning chemicals and ancillary services to (i) industrial customers including F&B manufacturers; and (ii) institutional customers active in the foodservice (catering), hospitality, lodging, healthcare, government, education and retail industries.

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<sup>5</sup> [About Ecolab](#).

- 2.4 Ecolab is incorporated in the United States and listed on the New York Stock Exchange. Its global turnover in 2018 was approximately £11.3 billion (US\$14.7 billion) and its sales to UK F&B customers was approximately £~~11.3~~.

## Holchem

- 2.5 Holchem is a UK based supplier of cleaning chemicals and ancillary services primarily to industrial customers active in the F&B industry, as well as distributors in the institutional segment in the UK and Ireland.
- 2.6 Holchem, prior to the Merger was a private company, incorporated in the UK and owned by several individuals and family trusts. The global turnover of Holchem in 2018 was approximately £~~11.3~~ and Holchem submitted that over 90% of this was in the UK.

## 3. The merger and its rationale

- 3.1 Discussions between the Parties started in 2017. ~~11.3~~. On 30 November 2018, Ecolab (through two wholly-owned subsidiaries) entered into a sale and purchase agreement (SPA) to acquire the entire share capital of Holchem. The transaction completed on the same day. The final purchase price was approximately £~~11.3~~.
- 3.2 The sale was not conditional on competition authority clearance. ~~11.3~~.
- 3.3 In the CMA's Phase 1 investigation, the Parties submitted that Holchem has well-established UK customer relationships, expertise and reputation in the F&B cleaning chemical business, particularly among domestic industry participants that is complementary with Ecolab's smaller UK footprint and corporate accounts focus. In our Phase 2 investigation as the Parties submitted Ecolab bought Holchem in order to strengthen its position in F&B and in the food segment in particular.<sup>6</sup> The Parties submitted that they were complementary: Ecolab is focused on customers who tender international contracts whereas Holchem is focused on large UK-only customers.
- 3.4 Ecolab told us that the Merger would lead to some procurement and general and administration savings however these were not the main rationale for the Merger. As a result of the Merger Ecolab said they saw growth opportunities to improve Ecolab's UK F&B business, which '~~11.3~~' and this may also benefit the wider European business as '*good tools, good systems, good insights, we could use that well in the rest of Europe*'.

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<sup>6</sup>Ecolab/Holchem Initial Submission, paragraph 5.28.

- 3.5 Ecolab also told us that *‘through coming together, stabilising our organisation, we would force ourselves, because of the stability’*. With more customers rolling over their contracts it would lead to *‘*
- 3.6 We have seen support for the Parties’ submitted rationale in Ecolab’s valuation of Holchem. Ecolab’s due diligence found that Holchem had a customer retention rate of around % which approximated to a useful life for Holchem’s customers. This high degree of expected customer retention, combined with forecast future growth in the UK and Europe and cost synergies, supported a purchase price in an amount equal to a multiple of EBITDA<sup>7</sup> for the 12 months preceding completion. Moreover, the deal documentation discusses Holchem’s customer relationships and technical expertise as being valuable to Ecolab.

## 4. Jurisdiction

- 4.1 Section 23 of the Act says that a relevant merger situation has been created if:
- (a) two or more enterprises have ceased to be distinct enterprises at a time or in circumstances falling within section 24 of the Act; and
  - (b) either the turnover value or the share of supply test (or both) as specified in section 23 of the Act, is satisfied.
- 4.2 Section 129(1) of the Act defines an ‘enterprise’ as ‘the activities, or part of the activities, of a business’, and a ‘business’ includes ‘a professional practice and includes any other undertaking which is carried on for gain or reward or which is an undertaking in the course of which goods or services are supplied otherwise than free of charge’.
- 4.3 We consider that both Ecolab and Holchem are enterprises, as each operates a business which supplies cleaning chemicals and ancillary services for the food and beverage industry.
- 4.4 On 30 November 2018, Ecolab acquired 100% of the issued share capital of Holchem. As a result, Ecolab has ownership and control of Holchem. We are therefore satisfied that the enterprises of Ecolab and Holchem are under common control and have ceased to be distinct within the meaning of section 26 of the Act.

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<sup>7</sup> Earnings before interest, tax, depreciation and amortisation.

- 4.5 The Merger completed without material facts about the transaction being notified to the CMA or being made public. Section 24 of the Act requires that a reference must have been made by the CMA within four months of material facts being notified to the CMA or being made public.
- 4.6 Ecolab did not issue a public announcement at the time of the Merger on 30 November 2018, but it did issue a press release shortly after, on 5 December 2018, stating: '*The acquisition is subject to clearance by the Competition and Markets Authority*'.<sup>8</sup> The press release therefore erroneously indicated that the Merger had not completed. Ecolab subsequently gave notice of material facts of the Merger to the CMA on 18 December 2018 (including confirmation that the Merger had in fact completed on 30 November 2018) and the CMA confirmed to the Parties that it considered that the necessary facts had been notified to the CMA on this date for the purposes of the time limits in section 24 of the Act.<sup>9</sup>
- 4.7 On this basis, the CMA was required to make a reference by 18 April 2019. On 10 April 2019, having found a realistic prospect of an SLC the CMA extended the period for a reference until 3 May 2019, by a notice under section 25(4) of the Act, to allow the Parties to offer undertakings in lieu of a reference. No such undertakings were offered and a reference for a Phase 2 investigation was made within the relevant time limit, on 24 April 2019.
- 4.8 Ecolab and Holchem overlap in the supply of formulated cleaning chemicals and ancillary services to F&B customers with a combined share of supply of [40-50]% and an increment of [10-20]% (measured by sales value) in the UK. The share of supply test in section 23(4) of the Act is therefore satisfied.
- 4.9 For these reasons, we have provisionally found for the purposes of section 35(1)(a) of the Act that a relevant merger situation has been created by the Merger.

## 5. The counterfactual

- 5.1 Before we turn to the effects of the Merger we need to determine what we would expect the competitive situation to be absent the Merger (the counterfactual).<sup>10</sup> The counterfactual is a benchmark against which the expected effects of the Merger can be assessed. The counterfactual takes

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<sup>8</sup> [Ecolab to acquire cleaning solutions provider Holchem](#), Ecolab press release 5 December 2018.

<sup>9</sup> This is in line with [CMA guidance](#) which says that material facts about the merger means information on the identity of the parties and whether the transaction remains anticipated (including the status of any conditions precedent to completion) or has completed (paragraph 4.44).

<sup>10</sup> [Merger Assessment Guidelines](#), paragraph 4.3.1.

events or circumstances and their consequences into account to the extent that they are foreseeable.<sup>11</sup>

- 5.2 The CMA may examine several possible scenarios against which to assess the competitive effects of a merger; but ultimately only the most likely scenario will be selected as the counterfactual.<sup>12</sup>
- 5.3 The Parties submitted that both Holchem and Ecolab would continue as independent competitors in the UK F&B market absent the Merger. We have not received any evidence to indicate that anything other than the pre-Merger conditions of competition would have prevailed absent the Merger.
- 5.4 Therefore, we provisionally conclude that the counterfactual in this case should be the pre-Merger conditions of competition.

## **6. Market definition**

- 6.1 Market definition provides the appropriate framework for assessing the competitive effects of the Merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of the competitive effects of the Merger, as it is recognised that there can be constraints on merging parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. We will take these factors into account in our competitive assessment.<sup>13</sup>

### **Product Market**

- 6.2 The Parties overlap in the supply of formulated cleaning chemicals and ancillary services for professional use in the UK. Professional users can be split into industrial and institutional customers.
- (a) Industrial customers include those who use cleaning chemicals to clean manufacturing and processing equipment and premises, and who normally purchase in bulk directly from cleaning chemical suppliers.
- (b) Institutional customers include those who use cleaning chemicals and associated products to clean their premises and equipment at which products or services are offered to consumers, including public customers (eg hospitals, schools) and commercial customers (eg hotels,

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<sup>11</sup> [Merger Assessment Guidelines](#), paragraph 4.3.2.

<sup>12</sup> [Merger Assessment Guidelines](#), paragraph 4.3.6.

<sup>13</sup> [Merger Assessment Guidelines](#), paragraph 5.2.2.

restaurants). Institutional customers tend to purchase cleaning chemicals through distributors, but larger customers buy directly from the cleaning chemical suppliers.<sup>14</sup>

- 6.3 As mentioned in paragraph 1.6, we have restricted our inquiry to consider the overlap between the Parties in the F&B segment of industrial customers.
- 6.4 The Parties submitted that they agree with the CMA's Phase 1 Decision that the relevant frame of reference should be the supply of cleaning chemicals to F&B customers.<sup>15</sup> However, they contest the exclusion of unformulated products from the frame of reference.
- 6.5 Using the supply of cleaning chemicals and ancillary services to F&B customers as our starting position<sup>16</sup>, in this section we consider whether the market should be broadened by including:
- (a) unformulated products; and
  - (b) supply of formulated chemicals for other industrial purposes.
- 6.6 We then consider whether the market should instead be segmented by:
- (a) the food, beverage and dairy industry segments; and
  - (b) customer size.

### ***Unformulated products***

- 6.7 The Parties argue that the market should include unformulated products as F&B customers can choose to use unformulated chemicals or alternative cleaning solutions to meet their cleaning needs. They suggest, for instance, that an F&B manufacturer may decide to use a combination of both raw caustic and a formulated product depending on the application or location within the factory. Unformulated products contain the raw cleaning substance but are not mixed together with other chemicals (or diluted). The Parties told us that the cleaning outcome in terms of killing microorganisms is the same between formulated and unformulated products, but differences occur regarding the amount of energy and water needed, which are important considerations to the customer, as well as other factors. For example, formulated chemicals can give off a desired scent or increase the amount of

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<sup>14</sup> Ecolab largely supplies institutional customers directly, whereas Holchem almost exclusively supplies through distributors.

<sup>15</sup> [Ecolab/Holchem Initial Submission](#), paragraph 3.1.

<sup>16</sup> Excluding unformulated products.



foam produced to reduce labour. Hence, an interplay of factors can influence whether a formulated or unformulated product will be most suitable.

- 6.8 The Parties submitted that unformulated suppliers are a constraint on their business and therefore are part of the relevant market. We considered their arguments at length and they are discussed fully within the competitive assessment chapter of this report.<sup>17</sup> Our provisional view is that unformulated products are not part of the product market but offer some limited constraint on the Parties. This is because most customers told us they would not be able to use unformulated products to meet their cleaning needs.<sup>18</sup> Of those that suggested they would be able to use unformulated products, they mostly suggested they would only be able to do so for some of their supply. In addition, often the purchases of unformulated products we have seen come from existing formulated suppliers with few circumstances where unformulated suppliers are directly competing for a large proportion of chemical supply.
- 6.9 In examples of switching given to us by the Parties, two customers switched less than 10% of the total annual value of sales to unformulated products and two other customers switched less than half of their annual sales. This provides some indication, from a demand-side perspective, that unformulated products are not sufficiently substitutable with formulated chemicals.
- 6.10 Furthermore, customers require a level of service and expertise with the supply of cleaning chemicals which is not provided by unformulated suppliers.<sup>19</sup> Our investigation has revealed that the provision of service and technical expertise, alongside the supply of cleaning chemicals, is highly valued by customers and is a key factor when it comes to choosing suppliers. These support services are not offered with unformulated chemicals. We have been told by several large competitors that competing with unformulated chemical suppliers just on price is very difficult but that most customers require these additional services.<sup>20</sup> This provides further evidence from a demand-side perspective that unformulated chemicals are not close substitutes for formulated chemicals.
- 6.11 The above also provides evidence from a supply-side perspective that unformulated chemicals are not in the same market as formulated chemicals.

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<sup>17</sup> See paragraph 7.176 and following.

<sup>18</sup> We spoke to many small customers with only three (out of 142) telling us that they could switch to unformulated chemicals to meet all their cleaning needs. We also spoke to several large customers with 10 out of 22 stating they could not use unformulated chemicals for any of their needs, four stating they could only use it for some of their needs and four who thought they would need further checks before deciding whether they could use it for all their needs.<sup>18</sup>

<sup>19</sup> See Figure 1 and paragraphs 7.186 and 7.190.

<sup>20</sup> See paragraphs 7.186 and 7.190.

A provider of unformulated chemicals which does not have the capacity or expertise to provide the technical support services as well could not seamlessly provide these to meet customer demand.

6.12 The Parties argued that unformulated chemicals should nevertheless be included in the relevant market because the level of switching to these products in response to a price increase indicated by customer questionnaire responses exceeds a 'critical loss' threshold based on a weighted average of the Parties' margins. The Parties calculated that it would not be profitable for the merged entity to raise prices by 10% if more than (approximately) 26% of its sales switched to other suppliers. The Parties submitted that our customer questionnaire responses indicate that more than this amount of sales would switch away. We place very limited weight on this analysis because:

(a) This type of analysis is of limited applicability in a market such as this one where suppliers set prices (and therefore margins) that can vary significantly between customers;<sup>21</sup> and

(b) The Parties' analysis assumes that of those customers who responded indicating that they might be able to switch some or all their demand to unformulated chemicals, 50% would switch all their demand. This is liable to overestimate switching, since we heard that unformulated chemicals can most often only be used in very specific applications and not for a customer's whole supply.

6.13 In summary, our view is that although unformulated products are a viable alternative to formulated products under certain circumstances and some customers indicated they might switch were there to be a price rise, the evidence we have indicates that unformulated chemical suppliers would act as a constraint only for a small proportion of the market. We have seen historically in the Parties' data that switching between unformulated and formulated is rare and going forwards this seems unlikely to change. Most customers we heard from indicated either that they could not use unformulated chemicals for any of their supply or that they did not know whether this was possible. The evidence suggests this is because a critical choice factor for customers is the level of service and expertise they receive from suppliers. Unformulated suppliers do not offer any level of service aside from delivery and thus are not direct competitors to the Parties. Accordingly, we do not include unformulated products within the relevant product market.

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<sup>21</sup> Indeed, the Parties themselves submitted that margins vary very significantly product by product and from customer to customer and make a margin analysis impractical. [Parties' Response to CMA Issues Statement](#), footnote 6.

## ***Supply of formulated chemicals for other industrial purposes***

6.14 There are several non-F&B industries which also purchase formulated chemicals including Agriculture, Life Sciences, and Professional Laundry Services. During our inquiry the Parties made no additional submissions of evidence regarding expanding the product market to include non-F&B segments. Hence, our arguments mainly reiterate the Phase 1 Decision.<sup>22</sup>

### *Demand-side substitutability*

6.15 We find that, with respect to demand-side substitution, there is little evidence to suggest that the other (non-F&B) segments should be included within the product market. We found:

- (a) Customers require suppliers to have F&B specific knowledge, expertise and services when purchasing cleaning chemicals and suppliers outside of the F&B sub-segment would not be able to provide this;
- (b) Customers have separate contracts and tenders for their F&B business and for their agriculture business when the customer operates in both.

6.16 With regard to customers requiring specific F&B knowledge, the Parties submitted that a considerable proportion of their customers made purchases of less than £~~50~~ per annum<sup>23</sup> and thus “will not have a formalised support and service program”. They argued that this means that the demand of these customers is substitutable with a wider product market (ie one that does not require suppliers to have specific F&B knowledge). We do not believe that this is consistent with what customers have told us. We received around 150 responses from the Parties’ smaller customers and on average the smaller customers listed service rather than price as the reason for choosing their current supplier.

### *Supply-side substitutability*

6.17 The evidence suggests that non-F&B suppliers are not able to substitute to supplying F&B customers for the following reasons:

- (a) Companies supplying agriculture and life sciences have struggled to build a presence in F&B due to lack of expertise,<sup>24</sup> and

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<sup>22</sup> Phase 1 Decision.

<sup>23</sup> ~~50~~% for Ecolab and ~~50~~% for Holchem.

<sup>24</sup> Similarly, Holchem and others only supply in F&B and have negligible sales to other industries.

- (b) Despite supplying other industries Ecolab has separate strategic plans for the F&B market with a dedicated sales-force at the F&B level.

### **F&B segments**

- 6.18 We also considered whether to segment the product market to a more granular level of food, beverage, and dairy customers (the composite parts of the wider F&B market).
- 6.19 The Parties submitted that although a distinction is often made between food, beverage, and dairy this distinction is based purely on the output produced and there is no difference to the hygiene requirements of each segment. They also argue that although food requires more open-surface cleaning compared to beverage and dairy, which are more Clean In Place (CIP)<sup>25</sup> focused, there is considerable overlap between them with respect to customer needs.
- 6.20 In accordance with the Parties initial submission<sup>26</sup> we find that there is substantial supply-side substitutability between the F&B segments. In particular:
- (a) The manufacturing processes, equipment, packaging, and delivery methods required for producing and distributing cleaning chemicals are identical for the food, beverage, and dairy segments.
  - (b) There is considerable overlap in the products provided to customers in each of these segments.
  - (c) The four largest competitors (the Parties, Diversey and Christeyns) are active across each of food, beverage and dairy customers.
  - (d) Ecolab's UK (and European and Global) business plans cover the full F&B segment.
  - (e) Many applications of the cleaning chemicals are almost identical across food, beverage, and dairy.
  - (f) Ecolab have staff who service customers across food, beverage and dairy.

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<sup>25</sup> We understand that F&B processing equipment is either CIP, or Cleaned Out of Place (COP), with CIP referring to cleaning of the interior surfaces of pipes, vessels, process equipment, filters and associated fittings, without disassembly. COP instead cleans equipment items by removing them from their operational area and taking them to a designated cleaning station for cleaning.

<sup>26</sup> [Ecolab/Holchem Initial Submission](#), paragraph 3.10

6.21 We therefore consider the appropriate product market is the supply of formulated cleaning chemicals and ancillary services to F&B customers. We note that there is some evidence of differences between the food, beverage and dairy segments (for example, Holchem's sales staff specialise in each segment) and these are explored in the competitive assessment of our provisional findings.

### **Customer size**

6.22 The Parties submitted that they offer distinct levels of service based on customer size. Ecolab uses a threshold of total annual sales to the customer of £~~200,000~~ to separate its 'very small customers' from 'small customers' and similarly £~~500,000~~ to separate 'small customers' from 'large national customers'. Ecolab submitted that customers with different spend levels receive different intensity of support – on average it will visit customers once per year for every £~~100,000~~ in sales.

6.23 Holchem uses a service level model which separates customers into bands ~~3~~. Each Band receives a different level of service, differentiated by the number of site visits.<sup>27</sup>

6.24 Other suppliers also indicated that customers of different sizes have different requirements. For example, large customers generally require more site visits, safety training, and quality reviews than small customers because they supply supermarkets which generally have stricter rules and requirements.

6.25 Thus, across the market, different sized customers receive a level of service contingent on their value and could be segmented based on customer size. While we have not defined separate markets for customers of different sizes, we take these differences into account in our competitive assessment. In particular, we consider differences between customers who generate sales revenue of over and under £50,000 of cleaning chemicals purchasing.

### **Geographic Market**

6.26 The Parties consider that the appropriate geographic market is national in scope.

6.27 We have not received any new evidence to suggest an alternative geographic market. Thus, we believe a national market definition is appropriate for the following reasons:

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<sup>27</sup> ~~3~~.

- (a) Suppliers need a UK manufacturing plant to ensure prompt delivery of chemicals and relevant service requirements, but do not need more localised production or other local constraints on supply; and
- (b) Suppliers require UK based staff with experience, relationships and expertise – suppliers can ‘fly in’ to get started but it is difficult to build up any meaningful level of business with this approach.<sup>28</sup>

## **Provisional conclusion on market definition**

6.28 We have provisionally found that the appropriate market definition in this case is the supply of formulated cleaning chemicals and ancillary services to F&B customers in the UK. In the rest of this report when we refer to the ‘supply of cleaning chemicals’ we mean the supply of formulated cleaning chemicals and ancillary services to F&B customers in the UK unless otherwise stated.

## **7. Competitive effects in cleaning chemicals for F&B customers**

7.1 In this chapter, we assess the competitive effects of the Merger as they relate to the supply of cleaning chemicals and ancillary services to F&B customers in the UK. We have assessed whether removing one party as a direct independent competitor might allow the merged entity to increase prices, lower the quality of their products or customer service (for example, technical support services), reduce the range of their products/services, and/or reduce innovation.<sup>29</sup> This is a horizontal unilateral effects theory of harm.

7.2 We have reached a provisional conclusion that the Merger may be expected to result in an SLC in the supply of cleaning chemicals and ancillary services to F&B customers in the UK. This conclusion is made on the basis that the merging parties are close competitors and that a substantial proportion of customers in the market will, as a result of the Merger, have fewer viable alternative suppliers from what was already a limited choice set. We are therefore currently concerned that because of the Merger prices will increase, service quality will decrease, the range of products/services will reduce, and/or the incentives to invest in innovation will be dampened. This chapter provides our reasoning for this provisional finding.

7.3 It is structured as follows:

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<sup>28</sup> See paragraph 7.213(c).

<sup>29</sup> [Merger Assessment Guidelines](#), paragraph 5.4.1.

- (a) We first consider the different players in the market and the market shares of the Parties and other suppliers.
- (b) We briefly describe key relevant characteristics of customers in this market.
- (c) We assess the closeness of competition between the Parties.
- (d) We assess the remaining constraint on the Parties from other competitors.
- (e) Finally, we set out our provisional assessment of the impact of the Merger on competition.

## **Market shares**

7.4 In this section we consider the market shares of the Parties and other suppliers in the market for the supply of cleaning chemicals and ancillary services to F&B customers in the UK.

### ***Approach to market share calculations***

7.5 The Parties submitted estimates of market shares using market size figures estimated using a model constructed by Ecolab. The model estimates the market size by combining public data on UK output of F&B products in several segments with Ecolab data on selected customers' hygiene spend per unit of output. We have used the estimates from Ecolab's market size model as our basis for estimating market shares.

7.6 We have provisionally concluded that the relevant market should be limited to formulated cleaning chemicals, as discussed in the previous chapter, we have therefore adjusted the market size to exclude unformulated products. This results in a total F&B market size estimate of approximately £120 million.

7.7 To estimate supplier market shares, we gathered data on sales from the Parties and their competitors and combined this data with the adjusted estimates of market size. We consider that this approach to estimating market size is reasonable, in the absence of reliable third-party data on the market, although we also consider that it is likely to result in imprecise estimates since it is based on extrapolating from a small number of customers. A more detailed discussion of the methodology and its appropriateness are included in Appendix C.

7.8 The Parties submitted that Ecolab's model may underestimate market size because:

- (a) It is based on Ecolab's larger customers, who receive better prices (and so it will understate the average hygiene spend per unit of production); and
- (b) Ecolab assumed the customers selected for the model purchased entirely from Ecolab, but, they are likely to source some other products (such as unformulated products or niche cleaning products such as hand care and wipes) from other suppliers, which again will lead to underestimating the average hygiene spend per unit.

7.9 We consider that issues of this type are inherent to the approach of estimating market size based on a small sample of one supplier's customers. It is also possible that there may be biases in the other direction, for example if the customers sampled have more intensive requirements than other customers and so spend more per unit of production. We therefore consider that the market size may be either overestimated or underestimated by Ecolab's model.

7.10 However, our confidence that these market size estimates are not significantly inaccurate is increased by the fact that the estimates (after adjusting to exclude unformulated products) are broadly comparable to estimates provided by Diversey and Christeyns<sup>30</sup> and those used in the CMA's Phase 1 investigation.<sup>31</sup>

### **Market share estimates**

7.11 Table 1 below presents estimated market shares for the overall F&B market between 2016 and 2018. The same market size estimate is used for each of the three years, as the Parties only provided a single estimate because of relatively stable demand.

**Table 1: Estimated F&B market shares (2016 to 2018)**

<b>Supplier</b>	<b>2016 Sales</b>	<b>%</b>	<b>2017 Sales</b>	<b>%</b>	<b>2018 Sales</b>	<b>%</b>
Ecolab	✂	[10-20%]	✂	[10-20%]	✂	[10-20%]
Holchem	✂	[20-30%]	✂	[20-30%]	✂	[20-30%]
<b>Parties Combined</b>	✂	<b>[30-40%]</b>	✂	<b>[30-40%]</b>	✂	<b>[40-50%]</b>
Diversey*	✂	[20-30%]	✂	[10-20%]	✂	[20-30%]

<sup>30</sup> Diversey estimated a market size of £97 million. Christeyns estimated a market size of £140 million, although this included some unformulated chemical suppliers.

<sup>31</sup> In the CMA's Phase 1 investigation, it considered estimates from a third-party report by Freedonia of £100 million, the market size estimate used in the [Bain / Zenith merger investigation](#) Bain / Zenith merger investigation of £110 million and estimates by the Parties ranging from £116 million to £245 million.



Christeyns	✂	[5-10%]	✂	[5-10%]	✂	[10-20%]
Niche Solutions	✂	[0-5%]	✂	[0-5%]	✂	[0-5%]
SC Johnson	✂	[0-5%]	✂	[0-5%]	✂	[0-5%]
Others (known)	✂	[0-5%]	✂	[0-5%]	✂	[0-5%]
<i>Remainder</i>	✂	[20-30%]	✂	[20-30%]	✂	[20-30%]
<b>Total</b>	✂	<b>100%</b>	✂	<b>100%</b>	✂	<b>100%</b>

\*Diversey includes Zenith sales for all three years. Zenith was acquired by Bain Capital, Diversey's owner, in 2018.

"Remainder" indicates the remainder of the market implied by the estimated market size after accounting for all suppliers which provided data to the CMA.

Source: CMA analysis based on data supplied by the Parties and third parties.

#### 7.12 From these share estimates we note that:

- (a) The Parties have a combined market share of [40-50] %, with an increment of [10-20] % and the merged entity will be more than twice as big as the next largest provider (Diversey);
- (b) The four largest suppliers in the market are the Parties, Diversey and Christeyns;
- (c) The market is concentrated. The four largest suppliers account for [60-90] % of the market, and no other supplier has a share of above 5%; and
- (d) Shares have been stable over the past three years.

7.13 The Parties also argued that the fact that the top three suppliers will account for over ✂% of supply post-Merger is entirely irrelevant as we are not considering a coordinated effects theory of harm. We note that, as set out in our guidance, market concentration can also be relevant to the assessment of unilateral effects where the product is undifferentiated, with the likelihood of such effects being higher in a concentrated market.<sup>32</sup> However, in interpreting market shares we have regard to the extent to which the Parties and their main rivals are differentiated.<sup>33</sup> A supplier with a high market share may nevertheless be a weak competitive constraint on the Parties if it competes for a different category of customer.

7.14 In this market, customers vary considerably in their size and what they need from their cleaning chemical supplier.<sup>34</sup> Even if the cleaning chemicals are very similar the type, the level and frequency of the support services are highly differentiated and customers have told us in our questionnaires and in our calls with them that they value highly the technical support services that

<sup>32</sup> [Merger Assessment Guidelines](#), paragraph 5.4.4.

<sup>33</sup> [Merger Assessment Guidelines](#), paragraph 5.3.2.

<sup>34</sup> See paragraphs 7.24 to 7.29.

the Parties and some other large suppliers provide.<sup>35</sup> We have therefore focussed our analysis below on the closeness of competition between the Parties and interpreted market shares only as a rough indication of likely competitive strength.<sup>36</sup>

7.15 The Parties noted that, according to Eurostat data, there are over 6,800 F&B manufacturers in the UK, while the Parties only serve approximately 1,200 customers combined, or 16% of the total estimated F&B producers. This is lower than their combined value market share of [40-50]%. However, we do not consider that this statistic has any material bearing on the accuracy of the estimated market shares, given that there is significant discrepancy in the size of customers and that the Parties are focused on larger customers.

**Table 2: Estimated shares by F&B segment (2018)**

Supplier	Food	%	Beverage	%	Dairy	%
Ecolab	✂	[10-20%]	✂	[10-20%]	✂	[30-40%]
Holchem	✂	[30-40%]	✂	[10-20%]	✂	[5-10%]
<b>Parties Combined</b>	✂	<b>[40-50%]</b>	✂	<b>[20-30%]</b>	✂	<b>[30-40%]</b>
Diversey	✂	[10-20%]	✂	[20-30%]	✂	[20-30%]
Christeyns	✂	[5-10%]	✂	[5-10%]	✂	[30-40%]
SC Johnson	✂	[0-5%]	✂	[0-5%]	✂	[0-5%]
Sopura	✂	[0-5%]	✂	[0-5%]	✂	-
Niche Solutions	✂	[0-5%]	✂	[5-10%]	✂	[0-5%]
Others (known)	✂	[0-5%]	✂	[0-5%]	✂	-
<i>Remainder</i>	✂	[20-30%]	✂	[20-30%]	✂	[5-10%]
<b>Total</b>	✂	<b>100%</b>	✂	<b>100%</b>	✂	<b>100%</b>

Source: CMA analysis based on data supplied by the Parties and third parties.

7.16 We also considered shares in each of the three F&B segments, set out in Table 2. As discussed above, while we do not consider that separate relevant markets should be defined for food, beverage and dairy, differences in shares between the segments may be relevant for our assessment of closeness of competition. The segment-level shares differ from the broader F&B market shares:

- (a) In food, Holchem has a higher share than in the market overall and other suppliers have slightly lower shares, and so the Parties have higher combined shares but the increment is smaller;
- (b) In beverage, Holchem is much smaller and the Parties have lower combined shares, while Diversey has a higher share;

<sup>35</sup> See paragraphs 7.31 and Figure 1

<sup>36</sup> [Merger Assessment Guidelines](#), paragraph 5.3.2.

(c) In dairy, Ecolab and Christeys are much larger and correspondingly Holchem is much smaller than in the F&B market overall.

7.17 These differences in shares across segments reflect the fact that, while the major suppliers are all active across all F&B segments, different suppliers have different focuses, and therefore, are differentiated from each other to some extent. Suppliers are likely to be stronger competitors in the segments in which they have higher shares, as they will have more relevant expertise, a stronger reputation and greater numbers of existing customers.

#### *Provisional conclusions on market shares*

7.18 Our analysis of market shares shows that the Merger combines two of the four largest suppliers in the market for formulated cleaning chemicals and ancillary services to F&B customers in the UK, which is already concentrated. The merged entity will be significantly larger in this market than any of its competitors. The same would be true if we looked at the food segment specifically. These market shares in themselves suggest that the Merger may be likely to result in a significant reduction in competition.

7.19 However, while market shares give an indication of the competitive strength of different suppliers in the market, they do not provide a complete picture. As discussed above, different customers have different requirements, particularly in terms of technical support and other ancillary services, and suppliers are differentiated in their expertise and focus (for example, Christeys is stronger in dairy than in either food or beverage). It is also important for us to consider the closeness of competition between Ecolab and Holchem, relative to the closeness of their competition with other suppliers. We examine this in the following sections. A merger between parties who compete closely could have a significant effect on rivalry and therefore on the extent to which the competitive process encourages firms to improve their offers to customers or to become more efficient and innovative.<sup>37</sup>

### **Customer behaviour**

7.20 How customers engage in a market can affect how we analyse and consider the evidence in a merger inquiry. For example, small customers might differ from large customers in how they interact with suppliers; the market might be characterised by frequent customer switching or infrequent switching; and supply agreements might typically be for a long or short duration. In addition,

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<sup>37</sup> [Merger Assessment Guidelines](#), paragraph 4.1.3

it is important that we understand how customers make choices when selecting a supplier.

- 7.21 In this section, we outline the typical behaviour of customers in the market for the supply of cleaning chemicals and ancillary services to F&B customers in the UK. We also assess how these behaviours vary across different types of customers. We have found that the requirements of customers vary with the size of the business, the type of production they undertake and the industry segment that they are active in. We have found that each Party's pool of customers is broadly similar in terms of these characteristics with the exception of customers on international contracts (discussed below).
- 7.22 We first note that customers purchasing cleaning chemicals for F&B production or processing are themselves businesses and not individual consumers, and the cleaning chemicals of interest in our inquiry are not branded consumer products.
- 7.23 The rest of this section proceeds as follows:
- (a) We first briefly summarise some of the key variations between customer types.
  - (b) We then look in more detail at the factors customers consider when choosing their suppliers.
  - (c) We explain the contractual arrangements in use in the market.
  - (d) We consider how frequently customers switch suppliers and barriers to doing so.
  - (e) Finally, we discuss market testing by customers.

### ***Variation by customer type***

- 7.24 We have found that the Parties' customers vary across several aspects including; size, whether they have sites in multiple countries and industrial sector (ie whether the customer operates in the food, dairy or beverage segment). This variation leads to differences in the way customers search for, and switch between, cleaning chemical suppliers and what factors they place most importance on.
- 7.25 There is wide variation in how much customers spend on cleaning chemicals and support services. The Parties' customer lists show some customers spending less than £1,000 annually and others spending over £1 million. With this range in spending we have seen differences in behaviour relating to the

way customers make their purchasing decisions and in what they demand from suppliers.

- 7.26 We heard from a range of market participants (customers and suppliers) that larger customers typically follow more formal policies and procedures when it comes to procurement and in some cases have greater needs in relation to service. The Parties and responses from customers also indicate that larger customers will typically purchase chemicals on a contractual basis and will often carry out a benchmarking or tender exercise near the expiration of the contract, often every three to five years. Smaller customers in contrast appear to search more infrequently and often only when there is an issue with their current supplier.
- 7.27 Similarly, we find that there is wide variation between customers in the number of sites that they operate from. There is considerable variation within the UK, ranging from the many customers with one UK site to some with over 30 UK sites. However, the number of UK sites that a customer operates has not affected our analysis since the major suppliers are all capable of supplying throughout the UK. Of more significance to our inquiry is the fact that some customers operate sites across multiple countries.
- 7.28 Customers who contract across several countries are referred to as 'international customers'. The Parties submitted that we should distinguish between international customers and other customers who purchase on a UK-only basis. They submitted that Ecolab's turnover is heavily concentrated on international customers, which make up  $\frac{1}{3}$ % of their F&B revenue in the UK, whereas Holchem does not receive any revenue from international customers.<sup>38</sup> International customers are discussed in further detail below in paragraphs 7.67 to 7.747.71.
- 7.29 We also found that there are some key differences in needs amongst customers in industrial segments, and between the food, beverage and dairy segments and even between different food customers. Some segments are much higher risk from a food hygiene perspective (eg food that is for immediate consumption, such as pre-made sandwiches) with more stringent standards imposed and higher service needs. More generally, we note how these variations between customers affect customer behaviour in our discussion below. We have taken differences in customer size and the industry segment in which they operate into account in our analysis.

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<sup>38</sup>  $\frac{1}{3}$ . See paragraph 7.73

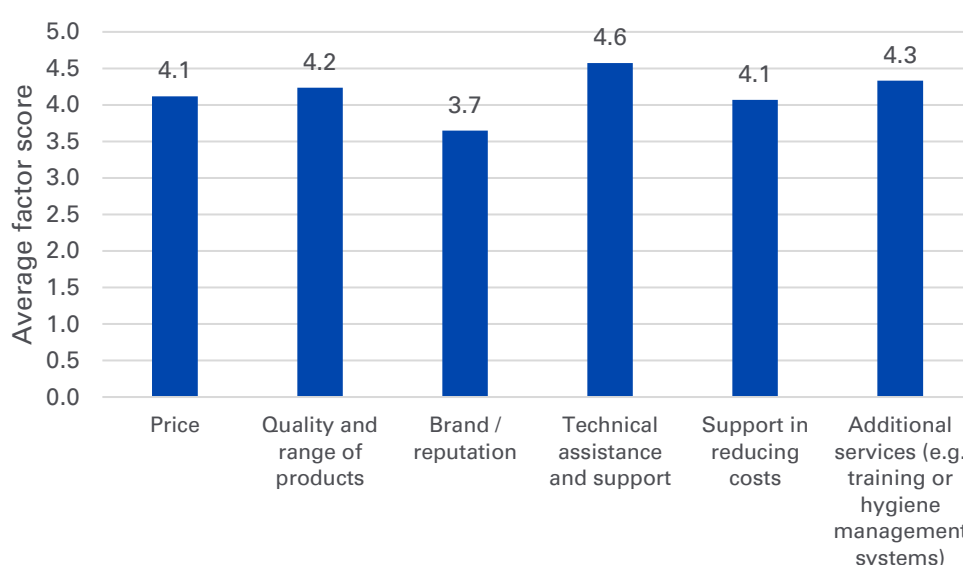
## **Choice factors**

- 7.30 F&B customers seek to purchase a range of chemicals which they use to clean their production or processing facilities. They are looking for a range of chemicals that meet their cleaning needs and are delivered in a timely and reliable manner. The Parties and major competitors we spoke to suggested that the range of chemicals they offer are broadly similar in functionality (and usually in chemical composition) and although they do seek to innovate it is difficult to differentiate their offer in terms of the chemicals themselves.
- 7.31 We have found in our inquiry that most customers, however, are looking for more than just the supply of chemicals. They want access to expertise as well. For example, the large cleaning chemicals suppliers can advise customers on the most efficient way to use the cleaning chemicals (which reduces water and energy usage) and ways to implement the cleaning process to minimise the disruption and turnaround times in production. Suppliers can also provide equipment on loan to apply the chemicals and tools to monitor the ongoing effectiveness of the cleaning process (which in turn helps them to advise customers on how to improve the cleaning process). Importantly, the large suppliers will offer training for the customer, not only at the point of starting the supply relationship but also when the customer employs new staff. The Parties submitted that they provide:
- (a) Hazard management;
  - (b) Cleaning advice;
  - (c) Engineering support;
  - (d) Validation, verification and monitoring;
  - (e) Advice in setting up hygiene management systems;
  - (f) Advice in optimising cleaning processes.
- 7.32 Suppliers will typically provide some combination of these and other services on a bundled basis, with increased service and equipment provided with increased chemical spend. Suppliers normally provide standard list prices for the chemicals with larger customers looking to negotiate discounts or rebates on the standard prices given.
- 7.33 We have heard during our inquiry that reliability and an efficient and high quality clean is important to customers. This is because of the potentially very high cost of having production disrupted by something going wrong in the cleaning process (eg the taste of the product is affected, or the cleaning

process takes too long) or the risk to public health and to the F&B manufacturer’s reputation of a food hygiene incident. Some third parties have told us that these considerations are utmost in customer’s minds when thinking about switching their cleaning chemical supplier/s.

7.34 We asked customers to score factors for importance when choosing a supplier. On average, they scored technical assistance, additional services and quality and range of products as being more important than price (see Figure 1 below). However, all factors scored highly (apart from branding).<sup>39</sup> This reflects comments by Holchem that customers want a complete package including both competitive pricing and thorough service.

**Figure 1 – Average score for importance of factors when choosing a supplier.**



Source: Large Customer Questionnaire results – 22 responses. 0 not important, 5 very important

7.35 The reasons given by large customers for choosing their current supplier also showed a similar picture with more customers mentioning service, expertise, support or reliability than price, cost or value.<sup>40</sup>

7.36 The extent to which these factors are important will vary between types of customers. One supplier explained that larger customers typically have greater needs when it comes to the level of service and that to service them suppliers must incur additional overheads, for example microbiologists, technologists, a training department and a team of people to do their cleaning instructions. Due to differences in customer needs with regard to services and expertise, not all suppliers will be able to service each customer at the same level.

<sup>39</sup> See Appendix B Table 41.

<sup>40</sup> See Appendix B Table 7.

- 7.37 We also found that there were differences between different industrial segments. For example, one supplier told us that customers the brewing sector often do not require as many of the cleaning / hygiene management systems as those customers that do higher risk food processing, and typically do not require a Marks & Spencer (M&S) approved disinfectant which is often a requirement of larger food customers.<sup>41</sup>
- 7.38 The Parties and customers also highlighted differences within the food segment. They suggested that there are differences between high care environments required in the food processing businesses compared to abattoirs, which are lower risk and therefore require cleaning to a lower specification. The highest standards are required where food is consumed directly from the package without any cooking or other treatment – for example, pre-made sandwiches.
- 7.39 Overall, we find that customers typically want a full-service package when purchasing cleaning chemicals and that due to differences in the specific services and expertise required for different customers, suppliers differentiate their propositions depending on the specific needs of the customer.

### ***Contractual arrangements***

- 7.40 The Parties submitted that most customers are not under contract and therefore are free to switch at any time.<sup>42</sup>
- 7.41 We also found that most customers are not under contract and instead rely on standard terms and conditions. Larger customers (who account for a proportionately greater amount of the Parties' revenue), however, are much more likely to be under contract. Figure 2 shows that [over 50%] of Holchem customers' and [over 50%] of Ecolab customers' revenue comes from customers under contract.

**Figure 2 – Proportion of revenue from customers under contract**



- 7.42 We heard from a range of customers that contracts are typically put in place for 3-5 years but will often contain a break clause.
- 7.43 The Parties also submitted that only a small proportion of customers use tenders.<sup>43</sup> The Parties customer records indicate that most customers are not

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<sup>41</sup> Within the industry obtaining M&S approval is viewed as a recognised quality standard for high risk F&B manufacturers. [Ecolab/Holchem Initial Submission](#), paragraph 6.12.

<sup>42</sup> [Ecolab/Holchem Initial Submission](#), paragraph 8.38.

<sup>43</sup> [Ecolab/Holchem Initial Submission](#), paragraph 7.9.



recorded as having been acquired by tender. However, as with contracts, larger customers are much more likely than smaller customers to carry out more formal procurement arrangements.

- 7.44 The merging parties' records of tenders taking place was not complete, but we see in Figure 3 that a large proportion of sales to customers over £~~1m~~ are tendered whereas only a very small proportion of tenders are recorded for the smaller customers. Overall, ~~10~~% of Holchem's and ~~10~~% of Ecolab's revenues came from customers recorded as having tendered.

**Figure 3 – Proportion of customers who tender, by customer spend<sup>44</sup>**



### **Switching**

- 7.45 We saw from the data provided by the Parties that customers often stay with the same supplier for long periods of time. Figure 4 shows that for Holchem, ~~10~~% of their revenue comes from customers who have been with them for ten years or more.<sup>45</sup>
- 7.46 This tallies with comments from both suppliers and customers suggesting that the risk of switching and the cost of changing chemical supplier can be high. For example, a change of cleaning chemicals and cleaning protocol may introduce a higher risk of a food hygiene incident (which has the potential to be very damaging for the customer). A customer also told us that switching will affect cleaning methodologies and the training process, and it would need a compelling case to do that. Customers are therefore risk-averse to changing chemical suppliers.

**Figure 4 – Holchem's proportion of customers and revenue by date acquired**



- 7.47 We also found that most respondents to our customer questionnaires did not list any previous suppliers.<sup>46</sup> This is consistent with the customer list data provided by the Parties showing customers do not switch frequently. We have found that this was particularly the case for large customers.<sup>47</sup> Indeed, Ecolab's valuation model for its acquisition of Holchem was based on

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<sup>44</sup> These figures for the proportion of revenue tendered are likely to understate the importance of tenders to competition. Ecolab customer data indicated only whether a customer was originally acquired by a tender process, but there are Ecolab customers who have over £1 million revenue who we know have recently run tender processes even if they were not originally acquired by tender.

<sup>45</sup> Ecolab did not have data on this going back for ~~10~~ years.

<sup>46</sup> 84 customers out of 157 responses.

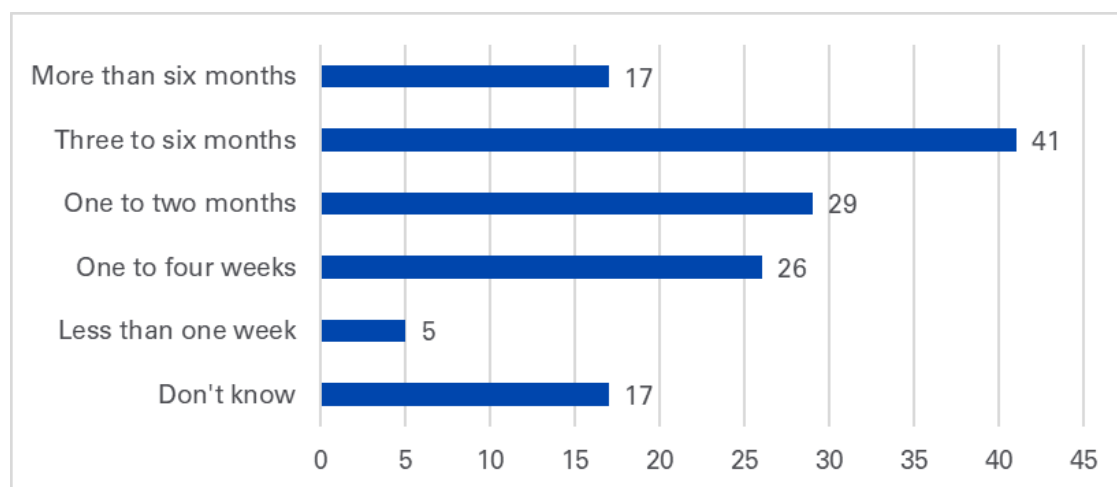
<sup>47</sup> 5 out of 21 large customers listed another supplier who they had used in the last 5 years.

Holchem’s customers having a ✂ useful life period as a customer (see paragraph 3.6 above).

7.48 We have found that searching for and switching providers can take a long time, although that this varies significantly between customers. Figure 5 below shows the estimated time to switch for small customers as given in the responses to our questionnaire. 15/22 large customers also indicated switching would take two months or longer with three of these suggesting it would take over a year. This can involve a material amount of resource and cost for the customer, for example, costs of retraining staff and replacing cleaning manuals were commonly cited by customers.

7.49 We also heard from customers that they often trial new suppliers before making a full switch, a step that can take weeks or even months. One customer said ‘It takes time to build trust with a new supplier that is not one of the established ones. Suppliers often have to undergo trials which are lengthy (usually six months)’. During the trial period, a range of factors are tested – for example, how it affects the customer’s products; the amount of time, water and energy that will be devoted to cleaning; and how the cleaning chemicals react / interact with the customer’s equipment. Both customers and suppliers have impressed on us that this is an important step in the switching process.

**Figure 5 – Estimated time to switch provider (smaller customers)**



Source: Small Customer questionnaire results

7.50 Other customers in the food processing segment highlighted even more significant costs. For example, some customers highlighted the need for allergen control and the need to undergo additional validation on each line of production.

7.51 It is also possible that suppliers could switch part of their supply. Our customer questionnaire found that around 30% of smaller customer respondents and half of larger customer respondents made purchases from a

second provider.<sup>48</sup> However, we heard from some customers that they preferred sole supply due to purchasing synergies with reduced complexity and cost of dealing with multiple suppliers and deliveries.

7.52 The results from our small customer questionnaire suggests that, where there is a second supplier, the proportion of the customer's requirement accounted for by the secondary supplier was limited. On average, respondents indicated that Ecolab supplies [90-100]% of its customers' requirements and Holchem supplies [80-90]% of its customers' requirements.<sup>49</sup> However, for larger customers that have dual supply, competitors often had a larger share with the proportion being supplied by the Parties averaging [50-60]%.

7.53 Customers might purchase from more than one supplier for a range of reasons. For example, we saw responses suggesting that some customers were making some purchases of unformulated chemicals for specific purposes where this was feasible, and support was not required. In addition, we saw examples of customers purchasing from two suppliers because they had acquired a new site which already had a different supplier.

### ***Market Testing***

7.54 The Parties submitted that even when they do not switch, customers in this industry are sophisticated purchasers who either engage in a tender exercise or market testing to ensure that their current supplier is offering competitive prices.

7.55 We have found that a significant proportion of the market is tendered each year. Looking across the tender data we received from the largest four suppliers we estimate that around 20%-30% of the value of their total sales to F&B was tendered in 2018.<sup>50</sup> This is not out of line with what we heard from large customers, that they often carry out tender exercises every four or five years.

7.56 We also heard some evidence of informal price benchmarking from customers where they did not carry out tenders. One customer informed us that a less formal benchmarking exercise was completed to ensure value for money, with supply staying with the incumbent. Holchem also gave examples of  $\approx$  of their customers in the last six months who had achieved discounts through this

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<sup>50</sup> The value for 2016 and 2017 was much lower and therefore this is likely an overestimation. Range depends on extent tenders without a date fall in 2018.

process, although only ✂ of these is reflected in their record of threats provided.

7.57 As most respondents to our customer questionnaire did not list any alternative providers it seems unlikely that a large proportion of customers are regularly carrying out benchmarking exercises but that it is a feature for some customers.<sup>51</sup>

7.58 As we go on to discuss in the closeness of competition across our analysis we see Ecolab and Holchem frequently as close competitors and this informal testing without switching should be captured in the Parties' opportunities lost and threats saved. But to the extent it is not, we think that it is reasonable to assume that as a result of the loss of competition between the Parties, the outcome of informal price benchmarking exercises after the Merger will yield less favourable outcomes to customers than would have been the case without the Merger.

## **Closeness of competition**

7.59 The Parties have told us that they focus on different customer segments and are therefore complementary rather than close competitors.<sup>52</sup>

7.60 Whilst it is true to some degree that they have different customer focusses – Ecolab earns slightly over half of its UK F&B revenue from international contracts whereas Holchem does not have any such contracts – we have provisionally found that not only do the Parties compete but are in fact close competitors for many UK customers.

7.61 In this section we assess how closely Ecolab and Holchem compete with one another, relative to their closeness of competition with other suppliers in the market. We consider evidence from:

- (a) The different types of customers served by the Parties;
- (b) The Parties' records on competition for customers they have gained and lost;
- (c) Tender data;
- (d) Internal documents;

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<sup>51</sup> 65 respondents did not list any alternative providers out of 144 responses.

<sup>52</sup> [Ecolab/Holchem Initial Submission](#), section 5.

(e) Views of the Parties' customers; and

(f) Views of the Parties' competitors.

7.62 The Parties submitted that the Merger is intended to be a '*reverse integration*', with Ecolab's weaker UK F&B business intended to be absorbed into the stronger Holchem F&B business. They argue that we should therefore only consider the constraint of Ecolab on Holchem, not the other way around – and that this constraint is limited. We reject this argument for two reasons:

(a) First, the fact that the target has a stronger position in the market than the acquirer has no bearing on the extent to which competition will be reduced because of the Merger – all competition between the Parties will be eliminated, in both directions.

(b) Second, as our analysis in this section goes on to show, Ecolab exercises a material constraint on Holchem even if the constraint exercised by Holchem on Ecolab is stronger.

7.63 We therefore focus our analysis in the following sections on the constraints coming from either Party on the other.

### ***Comparison of customer bases***

7.64 We have looked at the customer bases of the Parties and this has provided us with evidence on the extent to which they are supplying similar types of customers. This can also highlight whether they are therefore likely to be competing for similar customers. In this section we look at:

(a) International/Multinational customers,

(b) Size of UK customers, and

(c) Industry segments

7.65 We found that overall both Ecolab and Holchem have customers in each UK size category and industry segment we examined, indicating they are likely to be competing for the same customers. However, they do appear to have different strengths; for example, Holchem is more concentrated in the food segment.

7.66 There is a more significant difference when it comes to international contracts as the evidence suggests Holchem can only attract customers who contract UK business separately whereas Ecolab has a considerable proportion of its revenue coming from customers who contract on an international basis.

## *International Customers*

- 7.67 As set out in paragraph 7.28, we refer to customers who contract for supply in multiple countries as ‘international customers’. When an international customer contracts for supply within the UK the applicable framework agreement may have been negotiated and agreed outside of the UK with little or no UK-specific terms.<sup>53</sup>
- 7.68 The Parties submitted that Holchem does not compete with Ecolab for international customers.<sup>54</sup> We have found that this is correct. Ecolab serves several customers who contract for the supply of cleaning chemicals and support services to be provided in multiple countries (a single European-wide supply contract, for example). It earns a significant proportion of its revenue from such customers. Holchem, on the other hand, only serves customers who contract on a UK-only (and occasionally Ireland) basis. We have also heard from some of these customers who have informed us that they prefer having one supplier to service their sites in different countries and that affects which pool of suppliers they can choose from.
- 7.69 That is not to say, however, that all customers with multinational operations have a single contract to cover supply in all the countries they serve - some will have a UK-only contract for their UK operations. The Parties’ customer lists show that both Ecolab and Holchem supply some multinational customers on a UK-only basis. Indeed, in terms of customer numbers, over 80% of both Parties’ customers are for supply only in the UK. However, larger customers are more likely to be operating on a multinational basis. Ecolab receives 20% of its UK F&B revenue from multinational customers,<sup>55</sup> and Holchem earns slightly more than a quarter of its revenue from multinational customers (Figure 6). This demonstrates that Holchem can attract some of these customers where they contract on a UK-only basis.

**Figure 6 – Proportion of revenue by national and multinational customers (2018)**



- 7.70 The Parties submitted that all of Holchem’s customers with operations in multiple countries are owned by an international corporate group but procure on a UK (or UK and Ireland) basis. They told us that this is different from

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<sup>53</sup> [Ecolab/Holchem Initial Submission](#), paragraph 4.9.

<sup>54</sup> [Ecolab/Holchem Initial Submission](#), paragraph 5.4.

<sup>55</sup> Note this includes customers who are multinational but nevertheless contract on a UK-only basis. Once these customers are omitted, we think that Ecolab receives 20% of its UK revenue from international customers (paragraph 7.737.71).

Ecolab's multinational customers, many of whom have centralized procurement outside of the UK.

- 7.71 We agree that this is an important distinction, as noted above. We contacted several international customers who operate a centralised procurement system. They told us that it would be unlikely that they would consider using a UK-only supplier. For example, we spoke to one customer who told us that it had rejected Holchem as a potential supplier on the basis that Holchem only covered the UK. Additionally, Coca-Cola European Partners (CCEP) highlighted that having multiple suppliers who can supply multiple jurisdictions was something they would consider highly advantageous during a tender process. They also pointed out that reducing the number of CCEP's suppliers was a key goal of theirs.
- 7.72 We are also aware that ☒.<sup>56</sup> We have not seen any evidence of customers switching in the other direction (ie from purchasing on an international basis to purchasing on a UK-only basis). ☒.
- 7.73 However, we note that Ecolab also has two large customers who operate in several countries but for which it only services the UK. The larger of these customers (Moy Park, which has production facilities in the UK, France and the Netherlands) confirmed that it procures on a national basis, and that it invited Holchem to tender. We have therefore treated these two customers, as well as all Holchem's customers, as customers requiring UK-only supply (and therefore potentially subject to competition from Holchem). These customers account for ☒% of Ecolab's sales, and we therefore think that Ecolab's sales to customers who procure internationally account for ☒% rather than ☒% of its UK F&B sales.
- 7.74 The evidence available to us indicates that while some suppliers who supply international customers also supply on a UK-only basis (indeed, Ecolab itself does so), suppliers who only supply on a UK-only basis are not viable for international customers. Therefore, it seems likely that Holchem is not (and will not in the foreseeable future) be a strong constraint in the supply to international customers. The remainder of our provisional findings focus on UK-only supply. However, we are conscious that some of our analyses contain data from international customers (we do not have the level of detail in all of the datasets to strip out international customers from all of our analyses). We do not think that this is material for our provisional decision because the evidence indicates that the Parties are close competitors (as discussed in the following sections below) and so diluting the dataset with

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<sup>56</sup> ☒ are two examples provided by the Parties of customers who have made such a switch.

international customers (for whom there is little or no competition between the Parties) has not masked the competition that does take place between them.

### *Size of customers*

7.75 We found that looking at the number of customers across different size categories (see Figure 7) indicates that Ecolab and Holchem have a similar profile with over 80% of their customers being low value (80%).<sup>57</sup> A much smaller proportion of customers purchase significant amounts of cleaning chemicals each year.

**Figure 7 – Proportion of customers by customer spend (2018)**



7.76 Looking at the proportion of revenue generated by the different bands of customer spend (Figure 8) we have found that the small number of high value customers generate most of the revenue for both Ecolab and Holchem despite making up less than 10% of their customer bases. Indeed, Holchem has 10 customers and Ecolab has 10 customers who spend over £10 million per year on cleaning chemicals but these generate approximately £10 million and £10 million to Holchem and Ecolab respectively.

**Figure 8 – Proportion of revenue by customer spend (2018)**



7.77 Ecolab earns a much higher proportion of its revenue from contracts over £10 million in revenue than Holchem (10%) but both have only 10 customers in this category and earn a similar absolute amount (of around £10 million per year). Ecolab however earns proportionally less from its smaller customers.

7.78 While the Parties clearly serve customers across a wide distribution of sizes, we have focused on the distinction between ‘small’ customers with less than £50,000 of annual sales and ‘large’ customers with over £50,000 of annual sales, as this is a threshold both Parties use for determining service levels (paragraphs 6.22 to 6.25). By this definition, large customers account for the vast majority of each of the Parties’ sales – 90% for Holchem and 90% for Ecolab.

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<sup>57</sup> 80%.



### *Comparison across competitors for size and international*

7.79 To understand the relative scale of the major suppliers in supplying to different customer segments, we have compared the revenues of the Parties, Diversey and Christeyns in these segments.<sup>58</sup>

**Figure 9 – Revenue by customer segments (£ million, 2018)**



7.80 Figure 9 shows the revenue generated for three customer segments; small national, large national and international customers. We see that all suppliers receive a significant amount of turnover from small and large national customers, with Holchem being the largest of the main suppliers.

### *Industry segment*

7.81 We also found that both Parties have customers across the three different industrial segments within food and beverage ie food, dairy and beverage.

**Figure 10 – Proportion of revenue by industry segment (2018)**



7.82 Figure 10 shows that Holchem earns much greater proportion of its revenue from the food segment whereas Ecolab's revenue is split more evenly between the three segments. This indicates that they both compete across each of the three segments, but that they have different focuses and areas of expertise.

7.83 Ecolab told us that Holchem has a greater level of expertise in food while Ecolab has more expertise in beverage and dairy; two segments in which it gets more revenue than does Holchem. Notwithstanding this, ✂ (Table 2).

7.84 Having established that the Parties have similar customer profiles and are therefore likely to be competing for these customers, we now turn to the direct evidence of competition between the Parties.

### ***Accounts gained and lost***

7.85 Analysis of the Parties' records on gained and lost accounts allows us to see which competitors were competing for those accounts, how often they were competing against each other, and what was the value of accounts each

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<sup>58</sup> We have focused only on these suppliers because, as discussed in the section on market shares above, all other suppliers are much smaller with individual market shares of less than 5%.

competitor was competing for. This information signals how closely the Parties compete relative to other suppliers.

7.86 We were provided with data from Holchem which covered the period January 2016 to March 2019. Ecolab provided data from December 2016 onwards.<sup>59</sup> ✂. The data included the customer name, account type (gain, loss, trial, threat, etc.), who the primary competitor was, and the value of the account. We used this information to form the analysis of how closely the Parties compete. The full set of results and details of the data and methodology used is included in Appendix D. The data includes customers who contract only on an international basis.

7.87 In this section we will look at summary charts of our results across the following account types:

- (a) Gained accounts.
- (b) Lost accounts.
- (c) Threatened accounts (ie customers which the Parties perceived to be at risk of switching).
- (d) Trialled accounts (ie customers that were trialling the Parties).
- (e) Account opportunities (ie customers the Parties viewed as potential targets).

7.88 Our analysis shows that:

- (a) The Parties are consistently competing against each other across all account types;
- (b) That competition for accounts is mostly concentrated between the four main suppliers; Ecolab, Diversey, Christeyns, and Holchem;
- (c) The Parties compete slightly asymmetrically. Holchem has been a particularly strong competitor to Ecolab with most of Ecolab's lost accounts listing Holchem as the primary competitor. On the other hand, Ecolab has been less competitive in gaining accounts from Holchem; and

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<sup>59</sup> ✂.

(d) Other suppliers appear to offer some constraint at an aggregate level but the clear majority of these are local competitors with no significant named competitor emerging to match the main players.

7.89 The Parties argued that the competition they face from Diversey and Christeyns would in itself be sufficient to prevent an SLC.<sup>60</sup> They also suggested that an SLC would only be plausible if we found that Diversey was the only remaining constraint. We disagree. Diversey and Christeyns are not on their own sufficient to prevent competition concerns from arising, in this market which is concentrated, suppliers are differentiated, and the Parties compete closely.

#### *Analysis of Ecolab's gain and loss data*

7.90 Figure 11 shows the value and percentage for each of Ecolab's account types based on the identity of the primary competitor for those accounts, excluding accounts where there was no competitor, or the competitor was listed as unknown. For example, when looking at Ecolab's account opportunities, Holchem was the primary competitor for £~~2~~ million worth of those opportunities. This represents roughly [30-40%] of the total value of all Ecolab's UK F&B opportunities.

#### **Figure 11 – Summary of Ecolab's gain/loss**



7.91 The results show that Ecolab was primarily competing against Diversey when it gained accounts. On the other hand, when Ecolab lost accounts, the clear majority were to Holchem. This indicates that Holchem provides a significant constraint on Ecolab and they are very close competitors. Diversey provides a somewhat weaker constraint on Ecolab considering the low proportion of accounts it has taken from Ecolab and the fact it has threatened less than ~~2~~% of Ecolab's account in value terms.

7.92 Christeyns appears to be a weaker constraint on Ecolab. It has not won any accounts from Ecolab and competes for a smaller proportion of value across all account types (although it is the second strongest competitor for threatened accounts). Overall, Christeyns is clearly a weaker constraint on Ecolab than Holchem and Diversey.

7.93 Other suppliers include any competitor which is named in the Parties records but does not belong to the top three competitors already discussed above.

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<sup>60</sup> [Ecolab/Holchem Initial Submission](#), paragraph 1.2.

This includes competitors listed as “local” and “other”.<sup>61</sup> The results show that other suppliers are a weak constraint on Ecolab. They threaten less than 2% of the value of Ecolab’s accounts and Ecolab has lost only £2 in account value to them.

- 7.94 In conclusion, Ecolab’s gain and loss analysis shows that Holchem provides a substantial competitive constraint on Ecolab. This is evidenced by Holchem being Ecolab’s closest competitor for lost and threatened accounts, as well as account opportunities. Moreover, across all four account types competition is heavily concentrated between the large competitors.

#### *Analysis of Holchem’s gain and loss data*

- 7.95 Figure 12 shows the value and percentage for each of Holchem’s account types based on the identity of the primary competitor for those accounts, excluding accounts where there was no competitor, or the competitor was listed as unknown. There are four distinct account types in the Holchem data: gained accounts, lost accounts, trialled accounts, and threatened accounts.

#### **Figure 12 – Summary of Holchem’s gain/loss**



- 7.96 The results show that Ecolab was the primary competitor for a material proportion of value across all four account types. Diversey and Christeyns have a higher share of value for Holchem losses and threats than Ecolab, but nonetheless the data indicate that Ecolab has been a significant competitor to Holchem.
- 7.97 As with Ecolab’s gains and losses data, the results for Holchem also show that most of the competition for accounts occurs between the top four competitors in the market. For instance, considering all Holchem’s lost accounts across the period, in over 80% of cases where there was a known competitor, the primary competitor recorded was either Ecolab, Diversey, or Christeyns.
- 7.98 Although the results suggest that other suppliers might provide a significant competitive constraint in aggregate (with roughly 2% of the value across all four account types), we have found that out of the other suppliers no single competitor appears more than 2 times. 2.<sup>62</sup> 2. Thus, to the extent there is

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<sup>61</sup> Other suppliers are; 3M, A&B, Anios, Antigerm, Asiral, Brenntag, GEA, Hypred, QJS, Sopura, Steris, and Univar.

<sup>62</sup> See Appendix D, tables 6 and 7.

any competitive constraint from other suppliers, it is likely to be stronger at the lower end of the market but much weaker for larger customers.

7.99 Our analysis of Holchem's gained and lost accounts shows us that Ecolab is a close competitor in a material number of cases. Diversey and Christeyns appear to be closer competitors to Holchem than Ecolab. Nonetheless, Holchem's data shows competition being heavily concentrated between the four large competitors. We found other suppliers to have a stronger presence than in the Ecolab data. Yet, out of all the other suppliers no individual competitor provides a significant constraint.

### ***Tender analysis***

7.100 Having looked at the Parties' gains and losses across all customer types and methods of procurement, we now turn to looking specifically at how closely the Parties compete in formal tenders.

7.101 By looking at which suppliers participated in tenders, and which suppliers lost and won those tenders, we can draw conclusions about closeness of competition.

7.102 We received and analysed data on tenders bid on by each of the Parties and their two largest competitors, Diversey and Christeyns. We analysed ✂. Our analysis of the tender data shows that:

- (a) The Parties compete with one another for most of their tenders.
- (b) The large majority of tenders do not have all the largest four competitors competing, with only two or three being more commonly being recorded.
- (c) The Parties each also compete with Diversey for most tenders, and with Christeyns less often. They do not compete with any other suppliers to a significant extent.
- (d) When Ecolab loses tenders, Holchem wins in the clear majority of cases by value, indicating that it is Ecolab's strongest competitor.
- (e) When Holchem loses tenders, Ecolab, Diversey and Christeyns win similar proportions of the value. This indicates that Ecolab is a significant constraint on Holchem.
- (f) Evidence from Diversey and Christeyns' lost tenders confirms that Holchem is a very strong competitor to these suppliers as well, and that Ecolab is also a meaningful constraint.

## *Approach to tender analysis*

7.103 The data provided by the Parties, Diversey and Christeyns covered the period from January 2016 to May 2019. Each supplier's tender data included information on the other competitors who bid on the tender and the eventual winner of the tender, where known. The data does include international customers.

7.104 Holchem told us that information on competitors and winners is not always accurate, as customers do not usually share this information with suppliers bidding on their tenders. We have attempted to improve the accuracy of this information for our analysis by cross-referencing the datasets of the Parties, Christeyns and Diversey.

7.105 The Parties argued that we should put limited weight on any analysis of tender data, because:

- (a) Only a small portion of F&B demand is bid for in formal tender processes, and there is no evidence that customers who do go out to tender are representative of the larger customer base;<sup>63</sup>
- (b) The tender data is incomplete, as Diversey's data excludes Zenith (acquired by Bain Capital, Diversey's owner, in 2018), and we have only collected data from the four major suppliers and therefore the analysis discounts bids from smaller suppliers,
- (c) Where the tender data is "unknown" it is likely to be because that sale did not go through a tender process, and
- (d) The gain and loss data discussed in the previous section is available as an alternative and includes gains and losses due to tenders.

7.106 As discussed above, while it is true that the majority of the Parties' customers do not use tenders, those who do use tenders tend to be larger customers. Consequently, 8% of Holchem's and 8% of Ecolab's overall F&B revenues came from customers who use tenders. This is not a small portion of demand.

7.107 With regards to the incompleteness of the data, we acknowledge that this may result in some underestimation of the extent to which the Parties faced competition for tenders. However, we consider that this underestimation is likely to be limited, since:

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<sup>63</sup> [Ecolab/Holchem Initial Submission](#), paragraph 7.9

- (a) Other large suppliers told us that smaller suppliers did not compete for larger customers,<sup>64</sup> and
- (b) Several smaller suppliers told us they do not participate in tenders, with one saying there was no point in smaller companies bidding and another similarly saying tenders were not worth the effort of bidding.
- (c) Where the Parties' data lists a competitor from which we have not gathered data, including Zenith, we have assumed the Parties identified that competitor correctly (whereas when we have data from competitors, we have checked the Parties' data against it).

7.108 Furthermore, the lack of data from smaller suppliers is not likely to significantly affect the analysis of which suppliers won when the Parties lost tenders, since for  $\approx$  Holchem's lost tenders and  $\approx$ % of Ecolab's lost tenders by value, the winner can be identified from the data we have available.

7.109 We have analysed the tender data as well as the gain and loss data because it contains more detail on some aspects of competition (eg we can analyse all competitors who bid on a tender not just the primary competitor); it can be more readily combined with third party data; and there are some exclusions from the gain and loss data that are covered by the tender data, such as Ecolab losses before 2018.

7.110 We therefore consider that analysing tender data provides valuable additional insight into competition for the Parties' largest customers, who account for a significant proportion of the Parties' overall demand. We also consider that while there are some limitations to the data, they are not likely to significantly impact the results. In any case, in our provisional findings we have considered all of the available evidence in coming to a decision.

7.111 We summarise the key results of our analysis for each of the supplier's tender data below. Further details of the data and methodology are included in Appendix E.

#### *Ecolab tender analysis*

7.112 We have considered which suppliers Ecolab faced and in which combinations when competing for tenders, and which suppliers won when Ecolab lost tenders.

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<sup>64</sup> These comments are discussed below at paragraphs 7.170 to 7.171.

7.113 Table 3 below shows the competitors faced by Ecolab when bidding for tenders. Ecolab faced both Holchem and Diversey for most of its tenders by value. Indeed, for over 80% of tender value Ecolab and Holchem competed. It also faced Christeysns for a sizeable minority of tenders, and other suppliers in a small proportion of cases.

**Table 3: Competitors faced by Ecolab on tenders**

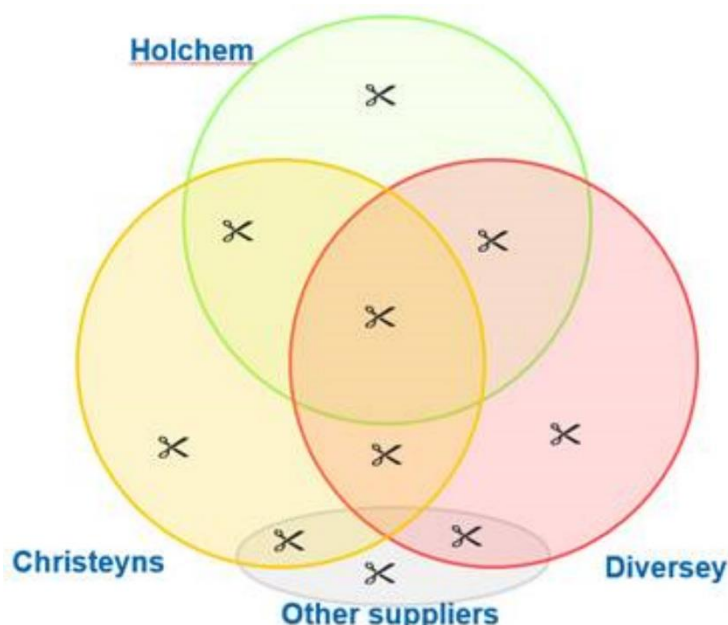
Supplier	Number of tenders	%	Value of tenders	%
Holchem	80	[40-50%]	80	[70-80%]
Diversey	70	[30-40%]	70	[60-70%]
Christeysns	20	[10-20%]	20	[20-30%]
Other suppliers	20	[10-20%]	20	[10-20%]
Total	80	100%	80	100%

Note that percentages do not sum to 100%, as multiple competitors may bid on a tender. For 20 tenders, accounting for 20% of value, there were no known competitors. Other suppliers include Sopura, Veolia, Solenis, Brenntag, Tensio, WaterTec, 'Other Local', and 'Raw Materials'.

Source: CMA analysis based on data provided by the Parties, Diversey and Christeysns.

7.114 Figure 13 below shows how often Ecolab faced each combination of competitors when bidding for tenders. This shows that Ecolab usually competes with one or two of Holchem, Diversey and Christeysns (over 80% by tender value), and only occasionally competes against all three for the same tender (20% by tender value).

**Figure 13: Overlap between competitors for Ecolab's tenders**



Percentages by value. The 20% of tenders by value for which there were no known competitors are not included in this diagram.

Source: Source: CMA analysis based on data provided by the Parties, Diversey and Christeysns.



7.115 Table 4 below shows the competitors who won the tenders lost by Ecolab. Holchem won the vast majority of these tenders by value, with Diversey also winning a fairly small proportion. Christeyns and one smaller supplier (WaterTec) won minimal amounts. This, and the discussion of Ecolab's tender data above, indicate that Holchem is a very strong competitive constraint on Ecolab when competing for tendered contracts.

**Table 4: Winners of tenders lost by Ecolab**

Supplier	Number of tenders	%	Value of tenders (£)	%
Holchem	✂	[40-50%]	✂	[70-80%]
Holchem / Diversey*	✂	[0-5%]	✂	[10-20%]
Diversey	✂	[10-20%]	✂	[5-10%]
Christeyns	✂	[5-10%]	✂	[0-5%]
Other suppliers	✂	[0-5%]	✂	[0-5%]
None/unknown	✂	[20-30%]	✂	[5-10%]
Total	✂	100%	✂	100%

Note, the difference between the total number of tenders in Table 3 (✂) and the total in Table 4 (✂) is that ✂.

Other suppliers include WaterTec only.

\*The majority of the value of this tender was won by Diversey – Holchem retained sites with annual sales value of £✂.

Source: CMA analysis based on data provided by the Parties, Diversey and Christeyns.

### *Holchem tender analysis*

7.116 Using Holchem's tender data, we considered which suppliers Holchem faced in which combinations when competing for tenders, and which suppliers won when Holchem lost tenders.

7.117 Table 5 below shows the competitors faced by Holchem when bidding for tenders. Holchem faced both Ecolab and Diversey for most of its tenders by value. It faced Christeyns for a sizeable minority of tenders, and 'Other suppliers' suppliers in a very small proportion of cases.

**Table 5: Competitors faced by Holchem on tenders**

Supplier	Number of tenders	%	Value of tenders (£)	%
Ecolab	✂	[40-50%]	✂	[50-60%]
Diversey	✂	[40-50%]	✂	[60-70%]
Christeyns	✂	[20-30%]	✂	[30-40%]
Other Suppliers	✂	[5-10%]	✂	[0-5%]
Total	✂	100%	✂	100%

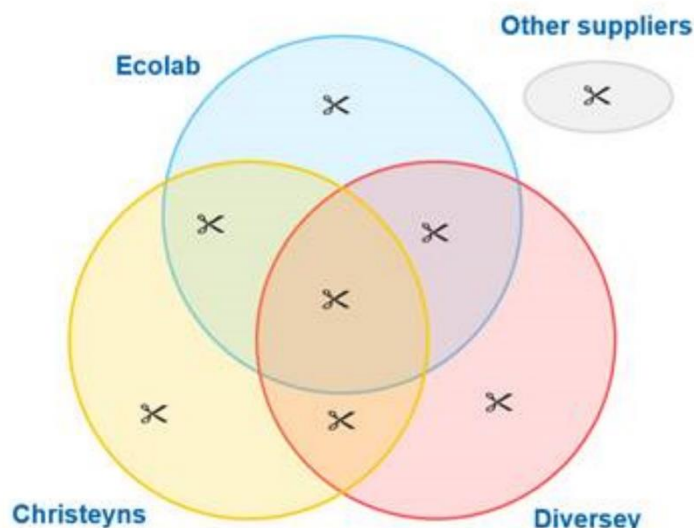
Note that percentages do not sum to 100%, as multiple competitors may bid on a tender. For ✂ tenders, accounting for ✂% of value, there were no known competitors. Other suppliers include Allied Hygiene, GIS, 'Local' and 'Commodity'.

Source: CMA analysis based on data provided by the Parties, Diversey and Christeyns.

7.118 Figure 14 below shows how often Holchem faced each combination of competitors when bidding for tenders. This shows that, similarly to Ecolab,

Holchem usually competes with one or two of the other three large suppliers (Ecolab, Christeyns and Diversey) accounting for over 80% of tender values, but only occasionally competes with all three for the same tender (accounting for 10% of tender value).

**Figure 14: Overlap between competitors for Holchem's tenders**



Note: Percentages by value. The 10% of tenders by value for which there were no known competitors are not included in this diagram.

Source: Source: CMA analysis based on data provided by the Parties, Diversey and Christeyns.

7.119 Table 6 below shows the competitors who won tenders lost by Holchem.

Notably, 65%.<sup>65</sup> For the tenders Holchem did lose, similar proportions of value were won by Ecolab, Diversey and Christeyns. No other suppliers won any tenders lost by Holchem. Based on our analysis of Holchem's tender data we think that Ecolab provides a substantial competitive constraint on Holchem when competing for tendered contracts.

**Table 6: Winners of tenders lost by Holchem**

Supplier	Number of tenders	%	Value of tenders (£)	%
Ecolab	10	[30-40%]	10	[30-40%]
Diversey	10	[40-50%]	10	[30-40%]
Christeyns	10	[20-30%]	10	[20-30%]
Total	10	100%	10	100%

Note, the difference between the total number of tenders in Table 5 (10) and the total in Table 6 (10) is that 10.

Source: Source: CMA analysis based on data provided by the Parties, Diversey and Christeyns.

<sup>65</sup> 65%.

## Analysis of third-party tender data

7.120 Using tender data provided by Diversey and Christeyns, we considered which suppliers won when these suppliers lost tenders.

7.121 Table 7 shows the competitors who won the tenders lost by Diversey. ✂.<sup>66</sup>

**Table 7: Winners of tenders lost by Diversey**

Supplier	Number of tenders	%	Value of tenders (£)	%
Ecolab	✂	[10-20%]	✂	[10-20%]
Holchem	✂	[40-50%]	✂	[50-60%]
Other suppliers	✂	[10-20%]	✂	[10-20%]
None/unknown	✂	[10-20%]	✂	[20-30%]
Total	✂	100%	✂	100%

Other suppliers include Tan International only.

7.122 Table 8 shows the competitors who won the tenders lost by Christeyns. ✂.

**Table 8: Winners of tenders lost by Christeyns**

Supplier	Number of tenders	%	Value of tenders (£)	%
Ecolab	✂	[5-10%]	✂	[20-30%]
Holchem	✂	[30-40%]	✂	[40-50%]
Holchem / Diversey <sup>67</sup>	✂	[5-10%]	✂	[10-20%]
Diversey	✂	[20-30%]	✂	[10-20%]
None/unknown	✂	[10-20%]	✂	[10-20%]
Total	✂	100%	✂	100%

7.123 In summary, our tender analysis shows that the Parties compete closely within the UK F&B market. Over ✂% of the value of tenders lost by Ecolab are won by Holchem indicating Holchem is a very close competitor. We also found Ecolab competed closely with the other large competitors for Holchem's lost tenders. Moreover, competition for tenders is focused predominantly amongst the big market players with very few smaller competitors having the ability to compete successfully. Thus, all the evidence points to the Parties being close competitors within a limited set of large suppliers.

### Customer evidence

7.124 Overall, customer responses – through our questionnaires and calls – corroborated other evidence discussed in this chapter, which is that Ecolab

<sup>66</sup> ✂

<sup>67</sup> Multiple winners mean that the customer is purchasing on a dual supply basis.

and Holchem are close rivals in the supply of cleaning chemicals to F&B customers (apart from the supply to customers with international contracts).

- 7.125 The customer responses confirmed that Diversey and Christeyns are also competing, with Diversey being a particularly strong competitor. Responses indicated that there is a wide range of smaller competitors but that these are much less well known/used particularly for larger customers. Reflecting the close competition between the merging Parties, many customers also highlighted direct concerns about the Merger.
- 7.126 We had calls with several customers. In addition, we sent two customer questionnaires – one to smaller customers and another to larger customers. More than 150 smaller customers provided us with information in response to our questionnaire,<sup>68</sup> a response rate of around 15%. Our larger customer questionnaire was sent to 152 customers and we received 21 responses – a response rate of slightly less than 15%. The Parties have suggested this means that the remaining 85% of customers were not worried enough about the Merger to respond. We do not agree with this suggestion. Non-responses could be for a whole range of reasons including the quality of contact details provided to us, other time pressures on potential respondents and the extent to which the customer participated in the CMA's Phase 1 investigation. Indeed, we are aware of some customers who expressed concern about the Merger to the CMA in its Phase 1 investigation who did not respond to our questionnaire.<sup>69</sup> Although it may be that customers who are concerned about the Merger respond in higher proportions than customers who are not, we do not have sufficient information to quantify this effect and we do not agree that non-responses should be interpreted as those customers are unconcerned about the Merger.

### *Approach*

- 7.127 This section looks at the different sections of the questionnaire which provide evidence on closeness of competition including:
- (a) The previous suppliers of the customers.
  - (b) The best alternative suppliers' customers listed.
  - (c) Concerns with the Merger.

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<sup>68</sup> We requested full customer lists and contact details from the Parties for the F&B segment and sought views from all these customers where contact details were provided. Full details in Annex B: Customer Questionnaires.

<sup>69</sup> See 'Evidence' on [Ecolab/Holchem webpage](#).

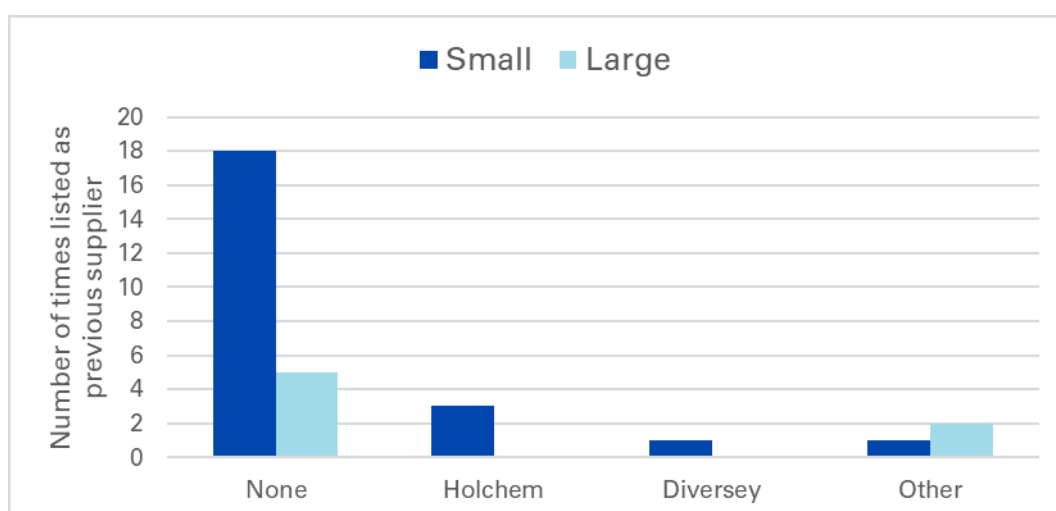
7.128 We highlight responses separately for larger customers (with purchases of £50,000 or more per year) and smaller customers (purchases of less than £50,000 a year) as the Parties and other market participants have indicated differences between larger and smaller customers.<sup>70</sup>

### *Previous suppliers*

7.129 Historical switching between suppliers is an indication of close competition between them. We asked respondents in our questionnaire to list any previous suppliers they used in the last five years.

7.130 The most commonly named previous supplier by small Ecolab customers is Holchem, which suggests that there is closeness of competition between the Parties (Figure 15). Diversey and DBM were also named and the small sample of large Ecolab customers named only Sopura and Tristel as previous suppliers.

**Figure 15: Ecolab primary customers' previous supplier in last 5 years**



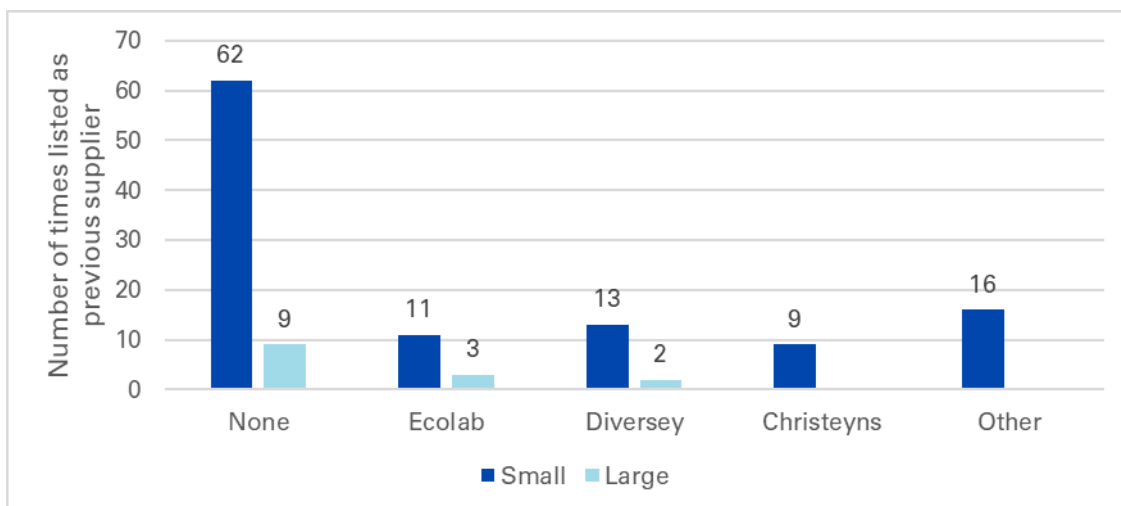
Source: Small and Large customer questionnaires  
Other suppliers all listed once includes: DBM, Sopura and Tristel,

7.131 For Holchem's small customers (Figure 16) the most commonly named previous supplier is Diversey followed by Ecolab and Christeyns. Some 16 other providers were also listed but each by only one customer. This indicates smaller customers may have some additional options outside of the largest four suppliers but in the main they look to one of Ecolab, Diversey and Christeyns (who together were named by 33 respondents).

7.132 For large Holchem customers only Ecolab and Diversey were named as previous suppliers.

<sup>70</sup> See paragraph 7.78 for an explanation as to why we segment customers along these lines.

**Figure 16: Holchem primary customers' previous supplier in last 5 years**



Note: Other suppliers all listed once includes: Murphy's, Infochem, Bactol, Freedom Hygiene, AOS Grimsby, Clover, Chemix, Chemisphere, Force Fresh, Foodsmart, Kitchenmaster, DBM, Hugh Crane, Arrow, Guthries, Cleanol.  
 Source: Small and Large customer questionnaires.

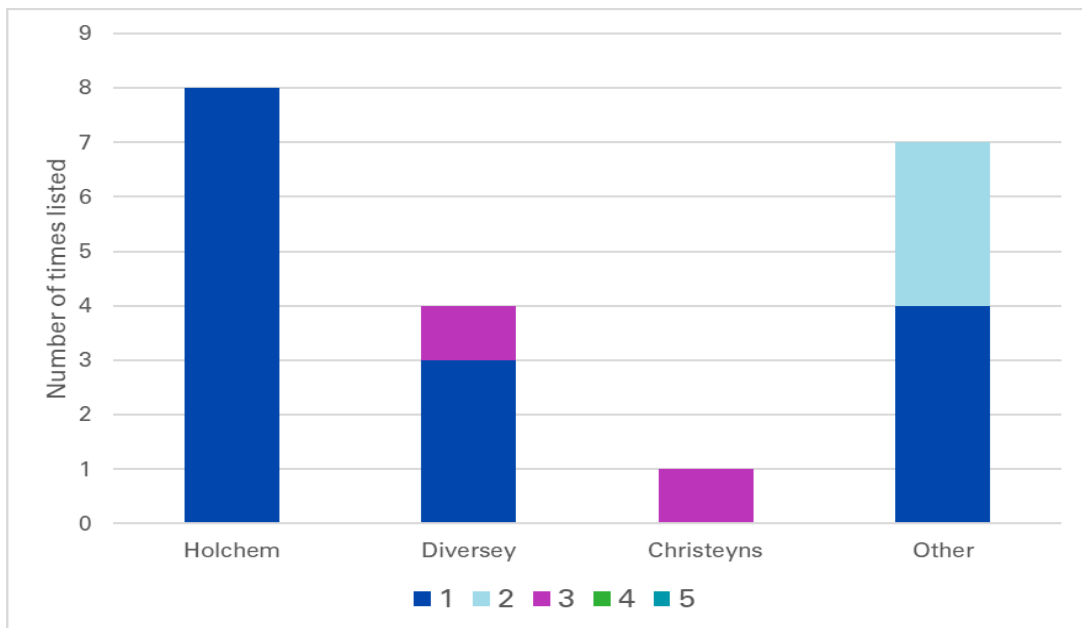
### *Views on current best alternative*

7.133 Although customers may not regularly look across the market, they may have an idea of who they would use instead of their current supplier. This can provide further evidence on the closeness of competition between the parties. We directly asked customers who their best alternative supplier would be if they could not use their current provider.

7.134 As shown in Figure 16, small Ecolab customers were most likely to name Holchem as their best alternative followed by Diversey. Several other alternative suppliers were listed as best alternative, but each was only recorded once. We only received four responses from large Ecolab customers naming alternatives, and these each named a different best alternative: Diversey, Christeyns, Tristel and Univar – the last only as an alternative for unformulated products, with the customer naming Christeyns as its best alternative for formulated chemicals.<sup>71</sup>

<sup>71</sup> One additional customer responded that 'any' was its best alternative and another declined to name its best alternatives, saying it would go through a formal tender to choose.

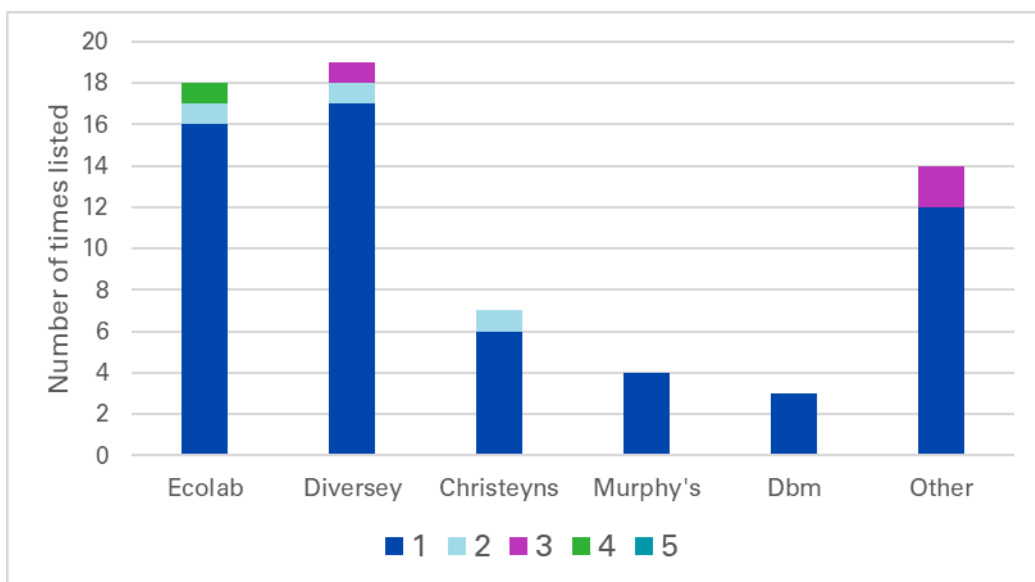
**Figure 17 - Ecolab Customers (<£50k national) – Alternative suppliers listed**



Note: (Best alternatives ranked 1-5). 24 customers total - 9 customers listed no alternatives  
 Other is other suppliers listed once including Bival, Brenntag, DBM, Kilco, Biocell, Hydrus, WJ McNab  
 Source: Small customer questionnaire,

7.135 Holchem’s smaller customers were most likely to name Diversey as their best alternative with Ecolab not far behind and Christeyns also a common rival. Other alternatives were named but mostly only by one customer, these are grouped under Other. Of the small suppliers named more than once Murphy’s were named the most coming up four times. Murphy’s is a specialist provider to the brewing segment.

**Figure 18 - Holchem Customers (<£50k national) –Alternative suppliers listed**



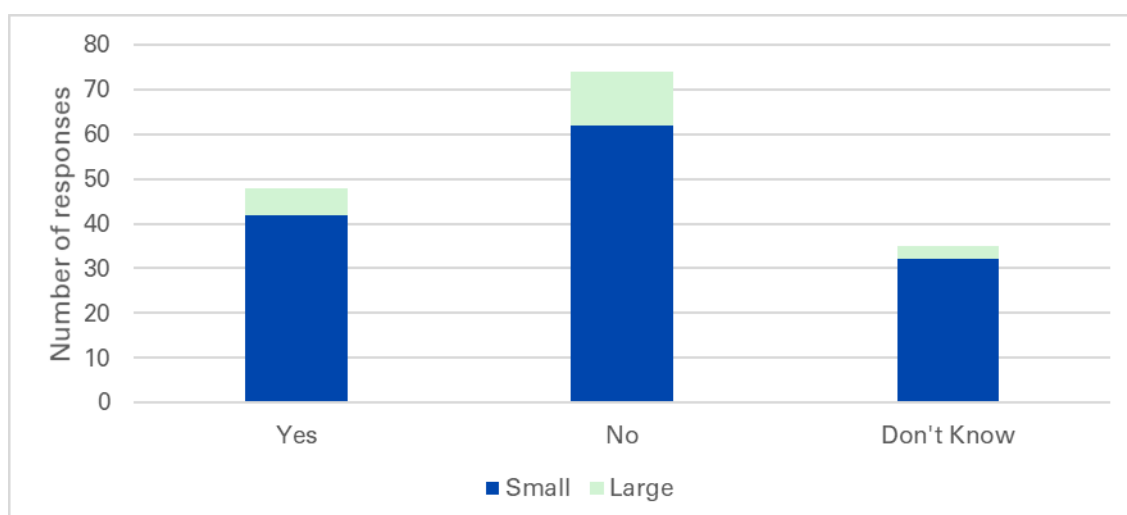
Note; Providers listed only once grouped together in ‘Other’. Includes: Cleenol, Eurochem, Seldon, Arrow, Alph Chem, Byrotel, Chemsafe, Wightmare, Reagent, Jenkinson, Freedom Hygiene, Brenntag, Basildon Chemicals, Pearce Seeds, Niche, Needlers, Monks and Crane, Local Independent, Evans Vanadine, Bunzl, Amb Hygiene, and Various x2.  
 Source: Small customer questionnaire (Best alternatives ranked 1-5) – 109 customers total, 49 listed no alternatives,

7.136 For the large customers Ecolab, Diversey and Christeys were the only alternatives named except for one instance where Kilco was also named as a third best alternative. Diversey was named best alternative seven times, with Ecolab and Christeys named three times each.

### *Customer Merger concerns*

7.137 Customers' concerns on a merger can provide evidence that competition will be lessened after the Merger. We asked customers directly whether they had any concerns about the Merger and whilst most customers did not express concerns as shown in Figure 19 a substantial number of respondents did have concerns. Although it is informative to gauge the number or proportion of customers who expressed concern, we also examined the reasons behind their concerns in order to understand the context (for example, whether the concern is specific to the Merger).

**Figure 19 - Whether customers have concerns about the Merger**



Source: Small and large customer questionnaires

7.138 We have found that 48 out of the 157 customers who responded said that they had concerns about the Merger and six of these respondents were large customers.<sup>72</sup> A range of reasons for this were given. The common reasons are summarised below:

- (a) Many customers had concerns about potential reductions in choice and service as well as higher prices. Some suggested that previous experience of such mergers led to a reduction in choice and higher prices.

<sup>72</sup> In addition to our Phase 2 customer questionnaires excluding those who responded to Phase 2 an additional 10 customers raised concerns about the Merger in Phase 1 of our inquiry and 6 customers did not raise concerns.



Some smaller customers were also worried they would be too small to continue getting good service without paying more.

- (b) Some customers were concerned about the lack of alternative suppliers in the market with some suggesting there would only be three suppliers for them to choose between. Other customers went further, one suggested that currently there are only three suppliers are approved by some of their customers in the food industry and this would become two after the Merger, and another suggested the Merger would create a monopoly.
- (c) Some had concerns about whether other suppliers had the ability to compete effectively to replace the loss of competition.
- (d) Others were worried because they had bad experience of using one of the suppliers before.

7.139 There were also a range of reasons given for not having concerns for example:

- (a) Some customers were not worried because they had not seen prices go up since the Merger was announced.
- (b) Some customers were unconcerned because they thought they had enough other options to choose from.
- (c) Some suggested one of the Parties was not currently a viable option for them.
- (d) Others suggested they had a strong relationship with one of the Parties and this was unlikely to be affected by the Merger.
- (e) Others suggested the Merger would be good because the two companies were complements with strengths in different segments of food industry.
- (f) There was also suggestion that both providers were reputable, or the customer had used both suppliers without problems.

7.140 Clearly, the views from customers are mixed and some of the views expressed, both from some concerned and some unconcerned customers, were underpinned by credible reasoning. We have placed weight on customer questionnaire responses generally, but on the specific question on whether they have concerns about the Merger we have placed far greater weight on the other evidence that we have received in our inquiry.

## **Internal documents**

- 7.141 Holchem told us that it produces relatively few internal documents. The Parties' internal documents which discuss competition in the UK F&B market are limited, but there is some discussion of competition in some of the documents provided by Ecolab, which confirms that Holchem is a strong competitor to Ecolab.
- 7.142 In Ecolab's 2019 business plan for F&B in the UK and Ireland, one slide describes competition driving down prices in the market and gives examples of five customers that Ecolab lost or failed to win (either through a tender or market testing process), 3 of which had sales values of over US\$1 million. Ecolab's tender data shows that four of these were won by Holchem – the other is not included in the tender data 3. This demonstrates the significant competitive constraint exerted on Ecolab by Holchem.
- 7.143 In the same document, however, there is also some indication of 3 and the presence of other competitive threats; a slide on Ecolab's strengths, weaknesses, opportunities and threats indicates that:
- (a) 3; and
  - (b) It views Christeyns growing stronger in food and dairy and Kersia entering the market as key competitive threats in the UK.
- 7.144 An Ecolab EU F&B Strategic Business Review from 2017 contains an overview of Ecolab's 'competitor landscape' at the European level. It lists Diversey as a global competitor, a number of other competitors with a European footprint, and Holchem. 'Competitive pricing' and 'food safety' are listed as strengths of Holchem, although 'Innovation' is listed as a weakness. Holchem being included in Ecolab's top European competitors despite its presence being limited to the UK and Ireland suggests that it is viewed as a particularly strong competitor.
- 7.145 Another internal document discusses the business case for the Merger and says that the Merger would allow Ecolab to 'avoid price concessions in the UK market' with a '0.5% price increase leverage'. When we asked Ecolab about this, it told us that the Merger would result in some customers not re-tendering. Because, Ecolab told us, re-tendering can lead to a reduction in price, avoiding some re-tenders means avoiding further price concessions (paragraph 3.5). This is the same as a price increase.
- 7.146 Overall the evidence from internal documents is consistent with other evidence discussed in this section indicating that Holchem is a strong constraint on Ecolab and that there is some possibility that after the Merger

the merged entity will be able to increase prices and/or worsen quality aspects of its offer.

## **Remaining competitive constraints**

7.147 In this section we consider the strength of the remaining competitive constraints on the Parties. We first consider the constraint from other suppliers within the market, before considering the constraint from suppliers of unformulated products.

### ***Competition from other F&B cleaning chemical suppliers***

#### *Constraint from Diversey*

7.148 Diversey is a global manufacturer and supplier of cleaning and hygiene chemicals serving a wide range of customers, including in the F&B market. Diversey is owned by Bain Capital, which also acquired Zenith Hygiene in 2018. Zenith is a UK manufacturer and supplier of cleaning chemicals, which also supplies other cleaning/hygiene-related products manufactured by third parties. Zenith entered the F&B market in 2016 by acquiring CCL Pentasol.

7.149 The Parties submitted that:

- (a) Diversey is a stronger competitor to Holchem than Ecolab is, based on bidding analysis included in the CMA's Phase 1 Decision which showed Diversey competing for a higher share of Holchem's food tenders than Ecolab; and
- (b) Diversey is a stronger competitor to Ecolab than Holchem is, on the basis that it can bid for international contracts which Holchem cannot.<sup>73</sup>

7.150 By market share, Diversey is the second largest supplier in the UK F&B market with a share of [10-20%]. It is particularly strong in the beverage segment where it is the largest supplier with a share of [20-30%], but it is one of the four largest suppliers and has a share above 10% across all of the F&B segments.

7.151 Slightly less than half of Diversey's sales in the UK F&B market are to international customers. This is similar to Ecolab, which made slightly more than half of its sales to international customers (Figure 9 above).

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<sup>73</sup> [Ecolab/Holchem Initial Submission](#), paragraph 9.5.

7.152 From our analysis of the Parties' gain/loss records and the tender data provided by the Parties, Diversey and Christeyns, we found that:

- (a) Both Parties competed with Diversey for a large proportion of their gained customers – this indicates that Diversey is competing for similar customers to the Parties, although it does not necessarily indicate Diversey is a strong competitor as these are accounts the Parties won;
- (b) Both Parties faced Diversey as a competitor for the majority of tenders by value;
- (c) Diversey was the primary competitor for around a quarter of Holchem's lost customers by value (where the competitor was known), and won a third of tenders Holchem lost; and
- (d) Ecolab lost less than a fifth of customers and tenders by value to Diversey, but in both cases this was a significantly higher proportion than to any other supplier but Holchem which won substantially more. This indicates that for UK-only supply Diversey is not a stronger competitor to Ecolab than Holchem.

7.153 Holchem's customers listed Diversey as their best alternative supplier more often than any other. Ecolab's customers named Holchem as their best alternative more often than Diversey. When the Parties' customers list is combined, eight of 18 large customers and 23 of 84 smaller customers listed Diversey as their best alternative.

7.154 Christeyns told us Diversey was its second strongest competitor, after Ecolab, but that Ecolab, Holchem, Diversey and Christeyns were all similar. All the smaller suppliers from which we received responses indicated that Diversey was one of their three strongest competitors. Several mentioned Diversey's size and competitive pricing as strengths, and customer service as a weakness.

7.155 The evidence discussed above indicates consistently that Diversey is one of the strongest competitors faced by the Parties. We have therefore provisionally concluded that Diversey exerts a significant constraint on the Parties and would continue to do so after the Merger.

#### *Constraint from Christeyns*

7.156 Christeyns is a European supplier of cleaning chemicals. Christeyns had historically primarily focused on the commercial laundry market but has been growing into the F&B market since 2010. In the UK, Christeyns entered the market by purchasing Klenzan Direct Limited (Klenzan), a UK-based supplier

of cleaning chemicals to the F&B segment. Christeyns acquired a 50% stake in Klenzan in 2012 and acquired the remainder of the shares in 2017.

7.157 The Parties submitted that Christeyns is a strong competitor, on the basis that:

- (a) Christeyns has carried out extensive business development activities aimed at developing its reputation in the UK F&B segment;
- (b) Christeyns is a Marks & Spencer accredited supplier of disinfectants, and is therefore a high-quality supplier; and
- (c) Christeyns can compete with Ecolab for international customers.<sup>74</sup>

7.158 Christeyns is among the largest suppliers in the F&B market with a share of [10-20%]. It is primarily strong in the dairy segment, where it has a share of [30-40%], whereas its share is only [5-10%] in the food segment and not more than 5%% in the beverage segment.

7.159 However, Christeyns told us that it hopes to reduce its reliance on dairy, and its business plans show high levels of growth in the food segment in particular. In addition, the Parties submitted that Christeyns has been competing aggressively for Holchem's (primarily food) customers. This is supported by Holchem's records on lost and threatened customers, which show Christeyns is the primary competitor for the highest proportion of these accounts.

7.160 From our analysis of the Parties' gain/loss records and the tender data provided by the Parties, Diversey and Christeyns, we found that:

- (a) Christeyns competed closely with Holchem across Holchem's gained and lost customers as well as trials and threats, and Holchem lost significantly more customers in competition with Christeyns than with any other supplier;
- (b) In contrast, Christeyns was the primary competitor for a small share of Ecolab's gains, opportunities and threats, and for none of the customers lost by Ecolab;
- (c) The Parties both faced Christeyns when bidding for tenders far less often than they faced Diversey or one another, although still substantially more than any other supplier; and

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<sup>74</sup> [Ecolab/Holchem Initial Submission](#), paragraphs 9.6 – 9.10 and 8.13.

(d) Holchem lost a similar proportion of tenders by value to Christeyns as it did to Ecolab or Diversey, but Ecolab lost almost no tenders to Christeyns.

- 7.161 Customer responses suggest that Christeyns is not viewed by the Parties' customers as being as strong an alternative as Diversey or the other Party. Small customers named Christeyns significantly less often while large customers named Christeyns slightly less often. 4 of 18 large customers listed Christeyns as their best alternative, as did 6 of 84 small customers.
- 7.162 Diversey told us that it views Christeyns as a weaker competitor than Holchem or Ecolab, and Christeyns mainly competes with Diversey for dairy customers. Diversey also said Christeyns is more focused on price relative to service, in comparison to the other large suppliers. Only three of the smaller suppliers active in the F&B market who responded to us included Christeyns among their closest competitors.
- 7.163 On balance, the evidence discussed above indicates that Christeyns is one of the strongest competitors faced by the Parties, although several pieces of evidence suggest that it is a weaker competitor to the Parties (and particularly on Ecolab) than one another or Diversey. Our provisional conclusion is that Christeyns is nonetheless a significant constraint on the Parties and would continue to be a significant constraint after the Merger.

#### *Constraint from smaller F&B cleaning chemical suppliers*

- 7.164 Several smaller suppliers (ie suppliers other than Ecolab, Holchem, Diversey and Christeyns) are also active in the supply of cleaning chemicals to F&B customers. According to our market share estimates, these suppliers collectively account for [20-30%] of the market – although we note that the large part of this share is made up of the 'remainder' from Ecolab's market share model after accounting for the suppliers for which we have sales data. Given that there is some uncertainty surrounding these market size estimates (paragraph 7.7) the actual share of the market accounted for by smaller suppliers could be smaller or larger.
- 7.165 The Parties submitted that, contrary to the CMA's Phase 1 Decision, smaller suppliers were able to compete for all F&B customers, including large customers. They argued that:
- (a) Small suppliers have won some large customers; and

- (b) It is possible to scale up production of F&B cleaning chemicals rapidly, so small suppliers could do so in the event of a post-Merger price increase.<sup>75</sup>

7.166 The Parties provided a list of 42 smaller suppliers which they submitted were their competitors in the UK F&B market. We contacted these suppliers to request information on their activities in the market. 26 suppliers either responded or had previously provided information to the CMA's Phase 1 investigation. Of these suppliers:

- (a) 15 told us that they do not compete – either because they did not supply cleaning chemicals to F&B customers or because they were not active in the UK (or both);
- (b) Two were suppliers of unformulated chemicals or alternative cleaning solutions – the constraint from this category of suppliers is discussed in the next section; and
- (c) Only nine were suppliers of cleaning chemicals to the F&B market in the UK.

7.167 These smaller suppliers include the following:

- (a) Sopura Limited (Sopura), an international supplier with sales in the UK F&B market of £~~2~~, primarily focused on brewery customers including some large international customers. Sopura told us that competing in the food segment is very difficult due to low pricing.
- (b) Niche Solutions, a supplier to breweries with £3m of sales in the UK F&B market. A third of Niche Solutions' sales are to large customers. Niche Solutions told us that larger suppliers of cleaning chemicals have secured the market with contracts and low pricing.
- (c) SC Johnson, a specialist supplier of skin care products with £~~2~~ of sales in the UK F&B market. It sells through distributors, but some of its end users are large customers. SC Johnson told us it is difficult for it to win business on skin care only when competing with suppliers who price on a bundle.
- (d) Selden Research, a UK supplier of cleaning chemicals, primarily selling to the institutional segment. It told the CMA in its Phase 1 investigation that it had £3m of sales to the UK F&B market.

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<sup>75</sup> [Ecolab/Holchem Initial Submission](#), paragraphs 9.19 – 9.29.

- (e) Kersia is a European supplier of F&B cleaning chemicals. It acquired Kilco, a UK supplier of cleaning chemicals to agricultural customers, in 2018. As a consequence, Ecolab said that it considers that Kersia is a constraint because of its manufacturing presence in the UK and its expertise in F&B outside of the UK. Moreover, the Parties submitted that Kersia has recently hired ‘*well-known*’ sales representatives. Kersia told us that it has only recently (March 2019) established its F&B unit in the UK and has been focused on preparing this project rather than actively competing for customers. However, it has prepared offers for a small number of customers on request, has approached a small number of small customer prospects, and gained one customer with annual sales of £30,000.<sup>76</sup> Kersia does not appear at all in the tender or gain/loss results. Moy Park, which ran a tender that both Parties bid for, told us that it also invited Kilco to the tender, but found that Kilco was not able to supply the full range of products required to meet the customer’s needs in its food business and so it did not consider Kilco further. Overall, the evidence considered above indicates that Kersia currently provides no constraint on the Parties. We discuss Kersia’s potential expansion below in the section on entry and expansion.
- (f) Five significantly smaller suppliers, with sales of between £25,000 and £450,000 in the UK F&B market.

7.168 Our analysis of the Parties’ gain/loss and tender data provided by the Parties, Diversey, and Christeyns, indicates that smaller suppliers compete for smaller customers, but:

- (a) Smaller suppliers on aggregate accounted for a moderate share of Holchem’s gains and losses, but with a lower average value than other competitors;
- (b) Smaller suppliers account for a small proportion of the accounts Ecolab gained, and a negligible proportion of the accounts Ecolab lost; and
- (c) Smaller suppliers compete for a minimal proportion of both Parties’ tenders and virtually never win against the Parties.

7.169 The results from the customer questionnaire also suggest that smaller suppliers may be a constraint to some extent only for smaller customers. Some smaller customers did appear to view smaller suppliers as a viable alternative. However, of the smaller customers who did identify an alternative,

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<sup>76</sup> Kersia also told us that Kilco used to categorise some of its sales as F&B, but that these were sales of its F&B product range to agricultural customers rather than to actual F&B customers. These sales amounted to ✂.



the majority named one of the Parties, Diverseys or Christeyns. Larger customers, however, did not – only one customer of 18 named a smaller supplier as their closest alternative, and few named one as their second or third closest alternative.

- 7.170 The other large suppliers agreed that smaller suppliers were not competitive for larger customers. Diversey told us that smaller suppliers were not able to compete for larger customers, and they did not lose any customers to such suppliers. This is because smaller suppliers cannot match the service delivered by larger suppliers.
- 7.171 Christeyns similarly told us that larger customers require a higher level of technical support, and so to serve these customers a supplier needs to have an extensive overhead structure including a range of staff with relevant expertise to provide that support. Smaller suppliers do not have this overhead structure, and so cannot compete effectively for larger customers. Conversely, smaller suppliers are better able to compete for smaller customers than large suppliers like Christeyns, because they have a leaner overhead structure and can therefore offer better prices, as well as being able to offer more frequent deliveries if they are focused on serving local customers.
- 7.172 The evidence discussed above consistently indicates that smaller suppliers compete for smaller customers but provide only a minimal constraint when competing for larger customers. Given that large customers account for the clear majority of both Parties' sales, as discussed at paragraph 7.78 above, we consider that smaller suppliers therefore exert a minimal constraint on the Parties overall.

#### *Constraint from other specialist suppliers*

- 7.173 The Parties submitted that post-Merger they would face some constraint from the possibility that customers could switch to using other specialist suppliers for certain products, for example cleaning wipes (wipes) or hand sanitiser.
- 7.174 We think that that this will, at most, provide a very limited constraint and only for some customers. This is because we have not seen evidence that the Parties are close competitors with these suppliers. Suppliers of wipes and other specialist products come up infrequently in our gain and loss and tender analysis if mentioned at all and are typically of low value.
- 7.175 This is likely for two reasons:
- (a) the products cannot be used for all cleaning applications. For example, wipes could not be used for cleaning closed systems.

- (b) customers value the full-service package and expertise covering all their cleaning needs, which they lose for each product they tender separately. One of the specialist hand sanitiser suppliers who responded to our questionnaire outlined they have difficulty competing with the bundled suppliers.

### ***Competition from unformulated chemicals and alternative cleaning solutions***

7.176 There are some alternatives for F&B customers to using formulated cleaning chemicals to clean manufacturing plants:

- (a) Unformulated chemicals consist of the basic chemicals which can be used in several cleaning processes. They include products such as caustic soda, hydrogen peroxide, fluoride and nitric acid. Formulated products may even have the same active ingredient to clean and kill microorganisms (bleach) but are combined with other chemical properties that may add efficacy (foam to extend surface contact and reduce labour) or aesthetic qualities (scent).<sup>77</sup>
- (b) There are also alternative cleaning solutions which involve using ozonated or electrolysed water.<sup>78</sup>

7.177 In the following section both unformulated chemicals and alternative cleaning solutions will be referred to as unformulated products. We do not consider these alternatives to be part of the relevant market, as discussed in Chapter 6 above. However, in this section we consider the extent to which these alternatives nevertheless provide a competitive constraint to the Parties.

7.178 The Parties submitted that these unformulated products are primarily used for CIP and COP applications which make up most of the Parties' F&B turnover. The Parties argued that these are substitutable with formulated products for several reasons:

- (a) Customers can switch between formulated and unformulated products;
- (b) Suppliers of unformulated products compete with suppliers of formulated products;

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<sup>77</sup> [Ecolab/Holchem Initial Submission](#), paragraph 6.2.

<sup>78</sup> Electrolysed water and ozonated water are made by the customers on site using equipment which alternative cleaning solution suppliers provide. The business model is therefore different to formulated suppliers and traditional unformulated suppliers.

- (c) Many F&B customers have pre-existing customer relationships with unformulated product suppliers meaning the expertise and knowledge of those suppliers regarding customer needs is already established; and
- (d) The chemicals are identical, meaning the same storage, piping, dosage pumps etc. can be used regardless of whether the product is formulated or unformulated.

7.179 Thus, considering these reasons the Parties argue that customers could easily switch between formulated and unformulated products to meet their cleaning needs and therefore unformulated products provide a significant competitive constraint on the Parties.

7.180 In the remainder of this section we will examine this argument by looking at examples of when customers have switched between unformulated and formulated products, what views the Parties' competitors have on the use of unformulated products, and whether the Parties' customers see unformulated products as a viable alternative.

#### *Examples of switching*

7.181 The Parties provided us with eight examples where customers have switched or considered switching between formulated and unformulated products.<sup>79</sup>

7.182 ✂:

- (a) ✂
- (b) ✂ switched from formulated to unformulated for a ✂. Holchem explained to us that this switch occurred when ✂ added an additional step to its cleaning process. This meant that unformulated Sodium Hypochlorite could be used instead of a formulated product. The Sodium Hypochlorite was purchased from Holchem<sup>80</sup> and ✂ continued to use formulated products for the other steps in the cleaning process.
- (c) ✂ switched to the use of unformulated products while being serviced by Holchem. This cost Holchem ✂% of the total contract value per year. In this case, the customer switched to an alternative raw materials supplier for the unformulated products.

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<sup>79</sup> There is limited reference to these companies in the gain/loss and tender data. ✂ appears in Holchem's threats data for a value of £✂ and the competitor listed as Ozo Innovations. ✂ appears in Holchem's threatened account data for a value of £✂. The competitors are listed as Diversey/Christeyns so it is unclear whether this was concerning unformulated products.

<sup>80</sup> Holchem submitted they could have purchased from a raw material supplier if they wanted to.

- (d) ✂ also switched to the use of unformulated products for part of its cleaning process. This resulted in a loss of ✂% of the total contract value per year to Holchem. They source the raw chemical from an alternative provider.
- (e) ✂ switched from a formulated defoamer provided by Holchem, to trialling product and equipment supplied by Activated Water (an alternative cleaning solution supplier). This resulted in a loss of ✂% of the total contract value per year to Holchem. ✂.

7.183 Three examples were of customers switching or considering switching from unformulated to formulated:

- (a) ✂
- (b) ✂
- (c) Additionally, ✂ a large European based food manufacturer has historically always used unformulated products. The Parties submitted that ✂ has considered switching to formulated products in a recent Request For Proposal process. However, the Parties are aware that ✂ decided to keep using raw materials.

7.184 Overall, the Parties were able to provide a limited set of examples where customers had switched between formulated and unformulated products. Moreover, what is clear from these examples is that when customers do switch to an unformulated supplier they typically do so for only a small proportion of their overall cleaning spend.

#### *Competitor views*

7.185 We spoke to Diversey who told us that switching to the use of unformulated products instead of purchasing formulated products is “not easy”. They gave several reasons for this view which include:

- (a) Reduced service element;
- (b) Technical reasons and validation;
- (c) Health and safety implications;
- (d) Equipment and capital expenditure cost; and
- (e) Customers prefer formulated products.

- 7.186 Diversey also told us that whilst unformulated products were used by some customers, particularly in the dairy and brewing segments, they were always used alongside formulated products. Moreover, they viewed unformulated suppliers as lacking the additional services and formulated product range which customers need. Hence, they did not consider them as direct competitors.
- 7.187 Additionally, they voiced concerns around the viability of ozonated and electrolyzed water as a replacement for formulated products. These concerns were partially based on the fact these cleaning solutions may cause corrosion of pipes and metals.
- 7.188 Christeyns confirmed that using unformulated products was possible in the dairy and brewing segments and that customers did use these methods. This is because of the large amount of CIP cleaning needed. However, they told us that these were becoming less popular due to environmental costs and the higher chemical concentrations needed.
- 7.189 Christeyns also told us that using unformulated products was not possible where manual cleaning was required for complicated machinery and equipment which is often the case in the food industry, here complex formulations are needed to produce effective foam. Therefore, in the food industry, where Holchem generates most of its revenue the substitutability between unformulated and formulated products is likely to be lower.
- 7.190 Christeyns also highlighted the differences in business models between suppliers of formulated and unformulated cleaning chemicals. Christeyns told us that it was unable to compete with unformulated product suppliers on price, because these suppliers offer no technical support and so have much lower overheads. But equally, it told us that technical support is highly valued by customers because it enables them to reduce their total cost of cleaning, of which the cost of chemicals will be a very small proportion. The service element provided is therefore a critical point of difference between formulated and unformulated suppliers.
- 7.191 We also spoke to two suppliers of unformulated chemical and an alternative cleaning solution provider.
- 7.192 One unformulated supplier told us they usually do not supply directly to the customer but instead sell their products through a service provider such as Ecolab. We also asked them who they believed their top five competitors were

in the UK F&B market. They listed five unformulated chemical suppliers with no mention of any formulated chemical suppliers.<sup>81</sup>

7.193 Another told us that they view the Parties as customers not competitors, and they do not and would not supply unformulated chemicals directly to F&B customers.

7.194 The alternative cleaning solutions provider specialises in supplying technology that allows companies to produce chemicals on site at ready to use concentrations. They told us that they consider Holchem, Ecolab, and Diversey as their top three competitors. However, they highlighted that ✂.

7.195 In addition, the gain/loss and tender analysis contains very little evidence of unformulated chemical suppliers being competitive constraints on the Parties.<sup>82</sup>

### *Customer views*

7.196 As part of our customer questionnaire analysis we asked both small and large customers whether they purchase unformulated products and whether they would be able to use these methods to meet some or all of their cleaning needs.

7.197 Additionally, we asked large customers whether they have ever considered using unformulated products for some or all of their needs and whether they would switch to unformulated products given a 10% price increase in formulated products.

7.198 Only a minority (26/144) of small customers told us that they currently purchase unformulated products as well as formulated products. This is compared to the vast majority (109/144) which told us they did not use any unformulated products and a small number (7/144) which did not know. Of those who currently purchase unformulated products, the underlying data to our questionnaire responses indicate that the bulk of these came from suppliers who also supply formulated products. It seems therefore that a loss of competition in the supply of formulated products will also affect these customers looking to purchase unformulated products (especially if they wish to receive the ancillary services attached to formulated chemicals).<sup>83</sup>

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<sup>81</sup> These five suppliers were: Univar, Industrial Chemicals Limited, Inovyn, IMCD, and Azelis.

<sup>82</sup> Brenntag, WaterTec, and Tan International are three unformulated suppliers that appear in the tender analysis, but they compete for a very small percentage of tenders.

<sup>83</sup> See Tables 3 – 5 in Appendix B.

- 7.199 When asked whether they would be able to use unformulated products to meet some or all their cleaning needs a very small proportion (3/142) said they could use these products for all their cleaning needs. A sizable minority (30/142) expressed that they could use some unformulated chemicals with more (44/142) telling us they could not use any unformulated chemicals. A substantial proportion (65/142) did not know whether they could use unformulated products. This suggests small customers are either unaware of unformulated products or have spent little time evaluating them as a viable alternative to formulated products.
- 7.200 We also received a range of responses as to why unformulated chemicals could or could not be used as an alternative to formulated products. In summary, customers that told they could use unformulated products generally pointed to the fact they could be used for specific applications. On the other hand, customers who told us they could not use unformulated products cited reasons such as “increased risk” and “cost implications”.
- 7.201 Several large customers told us that they currently purchase some unformulated products (8/20). The same proportion (8/20) told us they could use unformulated to meet all or some of their needs. Just less than half (9/20) said they could not use unformulated products. When asked if they had ever considered using unformulated products to meet some or all of their needs, an even greater proportion (12/20) told us they had never considered it.
- 7.202 Some customers told us that unformulated products introduced a risk of inconsistency in the product. One of these customers also said that unformulated chemicals might be harsher on their production equipment or use more water in the cleaning process. Another customer told us that cleaning chemicals need to be carefully calibrated in each plant to take account of differences in water quality / minerality between areas. Formulated chemicals can do this more reliably than unformulated chemicals.
- 7.203 When asked how they would respond to a 10% price increase in formulated products, a substantial proportion (10/21) gave equivocal answers about whether they would switch to unformulated products, with most indicating further assessment or other specific circumstances would be required. The remaining customers reported that they would not switch, or they did not know. No customers gave a clear indication that they would switch in response to a price increase.
- 7.204 Overall, a minority of customers appear to be able to use unformulated products for at least some of their cleaning needs. However, most customers would not be able to replace formulated products with unformulated entirely.

In fact, only a very small number of customers expressed views that this was possible.

### *Our assessment of unformulated products*

7.205 Assessing the evidence received from the Parties, other suppliers, and the Parties' customers, it appears that unformulated products do offer some level of constraint on the Parties. However, considering that few customers would be able to switch to unformulated, and that they would only be able to use unformulated products for a small proportion of their cleaning needs in most cases, it seems that the competitive constraint from unformulated products is very limited.

7.206 When purchasing unformulated products customers lose all the additional ancillary services they receive from the Parties and other formulated product suppliers. These additional services are highly valued by customers, as discussed in the section on customer behaviour above.<sup>84</sup> We have seen some evidence from the examples above and from speaking to suppliers of unformulated products that even when some customers purchase unformulated products they purchase it from their supplier of formulated cleaning chemicals (and continue to receive ancillary services).

7.207 We therefore do not consider that unformulated products will act as a sufficient constraint to prevent an SLC from arising.

### ***Provisional conclusion on the competitive effects in cleaning chemicals for F&B customers***

7.208 For the reasons given above we provisionally conclude that, subject to any countervailing measures, the Merger will give rise to an SLC in the supply of formulated cleaning chemicals and ancillary services to F&B customers in the UK. We now consider countervailing measures.

## **Countervailing factors**

### ***Barriers to entry and expansion***

7.209 Any analysis of a possible SLC includes consideration of the responses of rivals to the Parties including whether any rivals will enter or expand to compete against the Parties after the merger.<sup>85</sup>

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<sup>84</sup> See paragraphs 7.35 and 7.45.

<sup>85</sup> [Merger Assessment Guidelines](#) paragraph 5.8.1.



7.210 In this section we discuss whether entry or expansion might prevent an SLC from arising in this case. We discuss the types of barriers to entry and expansion that might exist and whether we can expect entry and/or expansion to be timely, likely and sufficient.

#### *Types of barriers to entry and expansion*

7.211 There are four broad categories of barriers to entry and expansion:<sup>86</sup>

- (a) Absolute advantages for current market players (eg legal advantages or technical advantages),
- (b) Intrinsic structural advantages (eg initial set up costs to establish an effective presence in the market which might include research and development and advertising) which are more likely to deter entry where a significant proportion of these costs are sunk,
- (c) Economies of scale which may prevent small scale entry acting as an effective competitive constraint, and
- (d) Strategic advantages which give incumbent firms advantages over entrants (eg first mover advantage) which can lead to barriers due to the loyalty and reputation the incumbent has built up over time.

7.212 We discuss each of these in turn below.

#### *Absolute advantages*

7.213 The Parties submitted that:

- (a) barriers to entry between adjacent geographic markets are negligible for existing F&B suppliers. Manufacturers in the EU need to comply with various EU regulations.<sup>87</sup> A cleaning chemical product sold in one part of the EEA can be sold across the whole EEA (without changes required to adhere to local standards).<sup>88</sup> Therefore, suppliers in other EU countries would be able to enter into the UK.<sup>89</sup> Indeed, the Parties told us that absolute barriers to entry, such as regulatory and know-how barriers, are a one-time barrier to entering F&B in the EEA as a whole. As such, there is a very large number of potential entrants into the UK F&B market,

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<sup>86</sup> [Merger Assessment Guidelines](#) paragraph 5.8.5.

<sup>87</sup> [Ecolab/Holchem Initial Submission](#), paragraph 8.5.

<sup>88</sup> [Ecolab/Holchem Initial Submission](#), paragraph 8.7.

<sup>89</sup> [Ecolab/Holchem Initial Submission](#), paragraph 2.1(a).

- (b) the chemistry involved in the manufacture of cleaning chemicals is relatively simple and widely understood, such that product formulation represents no barrier to entry or expansion,<sup>90</sup> and
- (c) expertise and servicing can be flown in from other EEA countries and at least one competitor is known by the Parties to operate in the UK using this model. Indeed, Holchem also began supplying cleaning chemicals to Ireland using this model.<sup>91</sup>

7.214 The Parties also submitted that we should consider ease of supply-side substitution when considering barriers to entry:<sup>92</sup>

- (a) There is significant overlap in the cleaning products provided to F&B customers and other cleaning chemical customers (ie including life sciences, agriculture and institutional customers).
- (b) The manufacturing process, packaging and delivery methods for cleaning products are very similar across the entire industrial segment and like those in the institutional segment.
- (c) Many chemicals formulations are almost identical to cleaning products used by other industrial and institutional customers as functionality, levels of concentration and health and safety standards are almost identical.
- (d) Many applications are used across the industrial segment. Hand and skin treatment products and environmental hygiene products used in F&B are identical to those used in the wider industrial and institutional segments.
- (e) The Parties' list prices are the same for identical products across different segments and sub-segments.

7.215 We have noted that in order to support their arguments, the Parties submitted a report by Freedonia Group, Inc<sup>93</sup> which said '*manufacturing requirements for I&I [industrial and institutional] cleaning chemicals do not pose a significant barrier to entry*'.<sup>94</sup>

7.216 The result of this is, according to the Parties, that barriers to entry or expansion for existing UK manufacturers in adjacent cleaning product markets

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<sup>90</sup> [Ecolab/Holchem Initial Submission](#), paragraph 8.4.

<sup>91</sup> [Ecolab/Holchem Initial Submission](#), paragraph 3.17. We understand that this model of supply was not successful for Holchem.

<sup>92</sup> [Ecolab/Holchem Initial Submission](#), paragraph 3.12.

<sup>93</sup> An industry research company.

<sup>94</sup> [World Industrial and Institutional \(I&I\) Cleaning Chemicals](#), Industry Study, November 2014

are low, as they are for suppliers already active in F&B in another EEA country.

7.217 We note that we have not seen examples of effective competition from imports. We have heard from third parties that transport costs for the chemicals is likely to make this uneconomic and that customers highly value a local presence for technical support. For example, according to one third party supplier, although chemicals could be shipped across national borders, in practice, transport costs would put the supplier at a disadvantage against domestic manufacturers. Another supplier listed a number of other disadvantages a supplier based in a different country would face, including lead times, lack of technical staff on hand, and different local industry and retailer standards.

#### *Intrinsic advantages*

7.218 The Parties submitted that the cleaning chemicals are the same within the EEA so there is no need for an existing F&B manufacturer operating in the EEA to carry out additional Research & Development specifically for the UK market.<sup>95</sup>

7.219 Moreover, the Parties said that manufacturing capacity is readily available (whether through a supplier's own factory or via toll manufacturing agreements with a third party) and so an entrant does not even need to invest in manufacturing facilities.

7.220 The Parties also submitted that the main intrinsic advantages enjoyed by incumbents relates to sales and marketing and the staff that must be recruited to service customers. In both cases a presence in an EEA F&B market outside the UK largely obviates the advantages held by a UK-based competitor.<sup>96</sup> They told us that total sales staff costs are in the region of £~~3~~ per year per person. The Parties do not believe that there are staff shortages or difficulties in recruiting. They also said that the F&B market is a 'professional market' (ie sales are to industrial corporates, not to individual consumers) so there is no need for a widespread advertising campaign to 'build the brand'.<sup>97</sup> Instead, suppliers concentrate on showing potential customers their expertise via:

(a) Internet presence to showcase activities in F&B

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<sup>95</sup> [Ecolab/Holchem Initial Submission](#), paragraph 8.9.

<sup>96</sup> [Ecolab/Holchem Initial Submission](#), paragraph 8.10.

<sup>97</sup> [Ecolab/Holchem Initial Submission](#), paragraph 8.11.

- (b) Developing and marketing new products to the market
- (c) Having representatives join trade associations and industry panels
- (d) Having representatives attend and speak at trade conferences
- (e) Providing customers with free resources such as training

7.221 The Parties submitted that the main sunk cost in expanding F&B in a new market is staff related. Parties argued that the number of dedicated staff required was minimal and that it was relatively easy and quick to train up new staff and that this could be done ‘on the job’ and there was a wide recruitment pool.<sup>98</sup>

7.222 Finally, the Parties submitted that barriers to expansion for the dozens of existing F&B suppliers in the UK market with small market shares are very low.<sup>99</sup>

7.223 A smaller supplier told us that the scale of the investment needed (versus expected return required) to really challenge Diversey, Ecolab or Holchem for market share is beyond its capabilities. Another third party said that regulatory compliance was a barrier although it must be noted that it did not elaborate further on this.

### *Economies of Scale*

7.224 The Parties submitted that toll manufacturing is available in the event that additional capacity (and presumably economies of scale) is required.<sup>100</sup> Therefore, according to the Parties, there is no difference in the economies of scale for the production of the product themselves enjoyed by two equally sized cleaning chemical suppliers, one of whom has a large presence in F&B and the other which has a small presence in F&B but is also present in other customer segments.

7.225 They told us that the manufacturing process for cleaning chemicals is entirely substitutable between the various products, irrespective of the industry into which they end up being sold, and irrespective of whether the products end up being sold to customers in different F&B sub-segments, agriculture or institutional. The Parties submitted that there is regular switching of F&B

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<sup>98</sup> [Ecolab/Holchem Initial Submission](#), paragraphs 8.14-8.22.

<sup>99</sup> [Ecolab/Holchem Initial Submission](#), paragraph 2.1(f).

<sup>100</sup> [Ecolab/Holchem Initial Submission](#), paragraph 8.26. The Parties said that in 2018, Ecolab spent €~~€~~ on toll manufacturing in European F&B (~~€~~% of Ecolab’s total F&B production of ~~€~~ by volume).

products on production lines and switching times are measured in minutes not hours.<sup>101</sup>

7.226 Regarding other factors relevant to economies of scale, the Parties submitted:

- (a) Relatively small numbers of additional staff are required to service large increases in customer demand.
- (b) Where additional capacity has been needed to be added by a competitor, customers have been willing to phase in entry in order to allow this to happen. Given the relatively low cost of the necessary manufacturing plant (mainly mixing vessels and storage tanks), the cost to expand capacity is insignificant. Holchem invested in ✂ and recruited ✂ staff as a result of it being awarded a contract with ✂. Furthermore, the availability of toll manufacture as either a temporary or permanent option means smaller rivals can benefit from economies of scale and expand rapidly without capital investment.
- (c) Further evidence for economies of scale not being a barrier is the number of small players in the market.

7.227 Some third parties told us that suppliers need scale to compete, whether that it is delivery logistics for the chemicals or in the provision of support services. One said that it is difficult to grow your share if you are small, because the market requires a good price and good services and the scale of the other parties is so big that it is difficult to compete.

#### *Strategic advantages*

7.228 The Parties submitted that:<sup>102</sup>

- (a) Reputation does not form a barrier to entry and can be leveraged from an affiliate in a foreign market or via a recognisable customer abroad that can act as a reference and/or brought in through the hiring of senior people with a good reputation in the sector,
- (b) quality recognition can also be established through respected third-party acceptance, such as being on the Marks & Spencer approved list of suppliers for its high risk 'ready to go' food. They also said that anyone with M&S accreditation can be said to have a good reputation in the food industry since M&S accreditation goes beyond that of applicable regulatory standard. There are currently 12 competitors listed in M&S

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<sup>101</sup> [Ecolab/Holchem Initial Submission](#), paragraph 8.23.

<sup>102</sup> [Ecolab/Holchem Initial Submission](#), paragraphs 8.31-8.37.

guidelines as approved for disinfectants for high care/high risk manufacturers. This includes three manufacturers not based in the UK (✂), and

- (c) it is the customer's responsibility to ensure that they carry out regular testing to ensure that their manufacturing processes meet the required standards in they hygiene protocols.

7.229 Regarding customer loyalty, the Parties said that:<sup>103</sup>

- (a) The majority of their customers are not on exclusive or minimum purchase contracts. Therefore, the price needs to be competitive to prevent from switching.
- (b) Customers do not have a strong attachment to their incumbent chemical cleaning supplier.
- (c) The main barrier to switching is cleaning protocols. Although there is not a strict requirement to update these when changing supplier, Ecolab (and presumably other suppliers), using one of its hygiene technologist (entry level role), would assist the customer in doing that if the customer were to switch to it.
- (d) Very small customers do not get training or other support bundled in with cleaning chemicals and must purchase them separately. As such small customers do not have the opportunity cost from switching of losing these services since there are independent training companies.

7.230 Competitors who we have spoken to agree with the Parties that for the manufacture and supply of the cleaning chemicals, barriers to entry and expansion are low.

7.231 However, among the larger suppliers in the UK, all highlighted the importance of reputation, security of supply, reliability and high quality technical support. One supplier told us that these are especially important for larger customers. One third party told us that in order to build a good reputation, a new supplier could start supplying smaller customers and over time can leverage its reputation to larger and larger customers.

7.232 One third party told us that a supplier receiving M&S accreditation might be able to use that as a signal to potential customers that it can supply high quality products.

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<sup>103</sup> [Ecolab/Holchem Initial Submission](#), paragraphs 8.38-8.43.

- 7.233 Two suppliers said that having a smaller range of products and services might inhibit growth opportunities, even if they are competitive on the products and services that they do provide. One told us that an inability to bundle products / services was a barrier to its growth. Another supplier said that if it is supplying a proportion of the customer's requirements with a large supplier supplying the remainder, the large supplier can withdraw its supply altogether unless the customer agrees to taking all of its requirements from the large supplier.
- 7.234 One competitor said that purchasing conservatism was a barrier. It told us that large food companies typically 'take the safe option' of playing the large, established suppliers off against each other.
- 7.235 Third parties (both competitors and customers) also highlighted to us the importance of trials when a customer is considering switching (paragraph 7.49).

*Our assessment of entry and expansion*

- 7.236 We currently think that there may be some strategic barriers to entry. These may be strengthened by some intrinsic and economies of scale advantages.
- 7.237 It is clear from third parties that customer relationships, a high level of customer support and, crucially, a strong reputation for reliability are needed to be successful in this market. Although the cleaning chemicals and services are a small proportion of a customer's overall operating costs, the cleaning process or an incorrect formulation of the products has the potential to delay production / operations (and harm the customer's reputation with its own customers). In addition, a food hygiene issue could be severely damaging for both the customer and the cleaning chemicals supplier. Therefore, the indirect cost of making a poor selection of cleaning chemicals provider could be considerable.
- 7.238 Customers are acutely aware of the risks in switching. Some customers have told us that they would be reluctant to switch to untested suppliers because the technical support services may not be as good as they currently get from Holchem or Ecolab. Another customer told us that switching is time consuming and potentially costly (particularly with testing and trialling involved) and that it would need a compelling case in order to switch. Indeed, overall, we have seen that switching rates are low and when customers do go to market (whether via a tender or a more informal route) they tend to mostly view established suppliers – the Parties, Diversey and Christeyns – as the pool of viable suppliers. Very few other suppliers are mentioned by customers. We have heard that even large, established suppliers are invited

to take part in trials before the customer decides whether that supplier is a low risk option.

7.239 We do think that it will take an entrant or an existing smaller supplier time to build its reputation and record for reliability. We also consider that there may be some economies of scale advantages and some intrinsic advantages involving sunk, set up costs. Some third parties have told us that larger suppliers are better able to compete on price. We are also aware that larger suppliers who are able to supply the largest customers need to be able to provide technical support services which allow the customer to meet stringent quality requirements of the downstream customers (eg a supermarket). It seems to reasonable that it would take time and investment for a smaller supplier who currently does not serve such customers to be able to effectively compete for these customers

7.240 We therefore think that even if entry or expansion would occur in the event that prices go up or services degrade after the Merger, it is unlikely to be sufficient to provide a credible alternative for a significant proportion of customers.

7.241 Ecolab's own internal documents support this view. When considering the Holchem transaction, Ecolab commented on Holchem's strong network with customers' hygiene managers and that Holchem offers Ecolab size, scale and technical expertise in F&B which will help the Ecolab business to evolve to profitable growth. Ecolab's documents discussing the acquisition of Holchem say that the Merger would accelerate sales growth in F&B relative to what it would be without a merger. Ecolab confirmed to us in the hearing that to grow without acquisition would be slow. When we put to Ecolab that Holchem's customer relationships and expertise was important for its rationale for the Merger in order to allow Ecolab to grow in the UK F&B segment, it told us:

I think first there the consideration was of course to stabilise our organisation, to leverage the food expertise in the rest of Europe, but, of course, as well, within this national customer database, we are becoming suddenly a much more meaningful player [because of the Merger]. I would like to say we could do it, but it would take a very, very, very long period of time. A longer period of time.

7.242 We think that this statement is consistent with the evidence that we have seen. That is, customers are risk-averse, have low switching rates and place value on reputation, reliability and a proven track record. We think that it is reasonable to consider that an entrant would find growth of the sort to restore competition after this Merger slow and uncertain.



7.243 This is further supported by the fact that we have not seen examples of recent entry and organic expansion in the industry. In our customer questionnaire, very few customers (five out of 144) were aware of any new entry in the past five years. A large supplier told us that there have not been any new entrants into the F&B sector in the UK in recent years. A lack of examples of entry and expansion indicates that entry or expansion in the near might be less likely than if it were commonplace.

7.244 Instead, suppliers, particularly the larger suppliers, have relied on acquisitions in order to get a foothold in the marketplace. This is consistent with barriers to expansion being significant. We note in particular the following recent acquisitions:

- (a) Ecolab acquired RP Adam Limited and Arpal Gulf in 2017,
- (b) Kersia purchased Kilco in June 2018,
- (c) Diversey purchased Zenith in April 2018<sup>104</sup>,
- (d) Zenith acquired CCL Pentasol and Cater-Lyne (both in 2016), as well as some other companies active in adjacent markets (eg supplying cleaning chemicals to the institutional customer segment),
- (e) Christeyn's purchases of Clover Chemicals (2018), T.J. & S. Jenkinson (2014) and Klenzan (2017), and
- (f) Zep's purchase of AFCO in 2017.

7.245 We therefore provisionally consider that, in general, entry or expansion would not be timely, likely and sufficient to prevent or mitigate an SLC from arising in this case.

7.246 We now discuss the possible expansion of Kersia, who has recently entered the UK market via acquisition.

#### *Potential future constraint from Kersia*

7.247 Actions taken by competitors that enhance their ability to compete against the Parties, for example by expanding, can mitigate the initial effect of the merger on competition and in some cases may mean that there is no SLC.<sup>105</sup> To be satisfied of this, we would require sufficient evidence of future entry and

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<sup>104</sup> Diversey itself was acquired by Bain Capital from Sealed Air in 2017.

<sup>105</sup> [Merger Assessment Guidelines](#) paragraph 5.8.1.

expansion to conclude that post-Merger expansion is likely, timely and sufficient to constrain the merged entity.<sup>106</sup>

7.248 The Parties drew our attention to Kersia, a global business but which is only recently expanding into the F&B segment the UK (paragraph 7.167). Ecolab told us that it will face ‘*aggressive*’ competition from existing players, including expansion by UK subsidiaries of large multinationals such as Kersia. The Parties submitted that the stated intention of Kersia, through its acquisition of Kilco was to expand in the UK F&B market.<sup>107</sup>

7.249 As well as already having a UK manufacturing presence in cleaning chemicals in the UK (through its acquisition of Kilco) and in F&B outside of the UK, Ecolab told us that Kersia’s hiring of ‘*well-known*’ and experienced sales representatives would be ‘*economically irrational*’ if Kersia did not expect that there was a ‘*reasonable likelihood and expectation to achieve significant traction and growth*’.

7.250 The Parties submitted that since Holchem does not compete for customers who use a single contract for supply in a number of countries, we should consider particularly Kersia’s intended expansion only in the context of supplying customers in the UK, including UK-only customers. The Parties told us that the relevant Ecolab turnover regarding these customers was approximately £~~2~~ in 2018. The Parties submitted that any benchmark in considering the expansion of Kersia in the UK would at the most need to be based on a competitor achieving a level of sales equal to Ecolab’s sales to UK-only customers. Our analysis suggests that Ecolab had sales of £~~2~~ to these customers.<sup>108</sup> Given we think that Holchem does not offer a strong constraint on the supply to international customers (paragraph 7.74) we have used this figure of £~~2~~ as a guide when considering the likely scale of Kersia’s expansion. However, in doing so we note that Kersia told us that it might participate in tenders for customers with whom it has a relationship outside the UK and who would look for a single supplier in as many countries as possible including the UK. Therefore, Kersia’s own targets might include international customers.

7.251 Kersia told us why it acquired Kilco and provided a Board document discussing the rationale. Kersia said that it wanted to focus on a ‘farm to fork’ strategy. Given the risk of contamination all through the food supply chain, Kersia plans to market itself as supplier who can be involved in every step of

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<sup>106</sup> [Merger Assessment Guidelines](#) paragraph 5.8.3.

<sup>107</sup> [www.kilcoint.com/en/blog/kersia-announces-the-acquisition-of-kilco/](http://www.kilcoint.com/en/blog/kersia-announces-the-acquisition-of-kilco/).

<sup>108</sup> The difference is caused by our classification of two Ecolab international customers who only purchased from Ecolab in the UK as national customers – see paragraph 7.73 above.

the process – from farming to slaughtering to processing. Moreover, Kersia told us ✂.

7.252 Kilco had expertise and a good product portfolio within the pig and poultry sector. Kersia's Board documentation discussed the rationale for its acquisition of Kilco which corroborated that a large part of the deal rationale was for Kersia to strengthen its farm hygiene offering in the UK, especially in dairy and pig and poultry. However, the rationale also noted that the deal offered '*UK food hygiene market potential*'. ✂. Kersia told us that with respect to F&B customers, ultimately it wanted to use its UK presence as a means to be able to bid in international tenders.

7.253 Therefore, even though Kersia has considerable scale in F&B cleaning chemicals elsewhere in the world, in the UK its expansion is starting from a low base. For example, Kersia submitted to us that it does not have the product range, commercial, technical or industrial capacity to supply international customers or large domestic customers (ie those with sales above £50,000 per year).<sup>109</sup> It currently has no sales to such customers. To place in context the scale of what Kersia would need to achieve in order for us to be satisfied that its expansion could mitigate or prevent an SLC from arising, Ecolab currently earns ✂% of its UK revenue (amounting to around ✂)<sup>110</sup> from customers with more than £50,000 of sales and Holchem currently earns ✂% of its UK revenue (amounting to around ✂) from these customers.

7.254 ✂

7.255 ✂

7.256 The UK F&B turnover of Holchem is approximately £✂, Ecolab's is approximately £✂ (of which £✂ is to UK-only customers), Diversey's is approximately £24 million (of which a significant proportion ✂ is to UK-only customers) and Christeyns' is approximately £13 million (all of which is to UK-only customers).

7.257 The sales targets of Kersia are modest in comparison and we currently do not consider that such low levels of projected sales indicate that Kersia will provide effective competition to the merged entity in the near future. ✂.<sup>111</sup> Even assuming that the merged entity would experience no growth at all over

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<sup>109</sup> ✂

<sup>110</sup> This figure includes international customers. Even if international customers were excluded we would expect the figure to be at least £✂.

<sup>111</sup> ✂.

the next few years, any Kersia expansion at this level would be insufficient to replace the competition lost by the Merger.

7.258 Moreover, we note that the sales targets provided to us by Kersia are overall F&B sales and are not separated by large and small customers. We consider it is reasonable to assume that ✂.

7.259 Kersia told us that that it has only two sales people covering the UK (Diversey and Christeyns each have around 15-20 people). It does not yet have M&S accreditation (although this is expected in 2019) and its electronic hygiene management system is still being developed (although again this is expected to be finalised in 2019).<sup>112</sup>

7.260 We further consider there to be significant barriers in the industry that would constrain Kersia's ability to become a sufficient constraint against the merged entity in a timely manner. For example, in our customer questionnaires, no large customers listed Kersia (or Kilco) as a viable alternative supplier. Only four (out of 21) large customers had heard of Kersia. This supports the proposition that Kersia is not yet considered by large F&B customers as a viable supplier and it needs more time to develop awareness and its reputation. Our inquiry has found that success in this industry is linked to suppliers' reputation for reliability. This coupled with high levels of customer inertia, in our view, is likely to make expansion to the levels that would constrain the merged entity uncertain (and indeed slow).

7.261 The Parties have submitted that we have not defined sufficiency in how we have considered expansion. In our view, whether or not entry and expansion is sufficient as a competitive constraint such that it is likely to mitigate the effect of the Merger on competition and mean there is no SLC is a matter of judgement, based on an assessment of all the relevant evidence in the round. We therefore do not consider that there is a particular 'threshold' for sufficiency that can be set out in the abstract, and the extent to which entry and expansion is a sufficient competitive constraint in any given merger is a question to be weighed on a case-by-case basis against the scale of any finding of an SLC arising from the reduction in rivalry between the Parties involved.

7.262 In this case we currently do not consider the expansion of Kersia in F&B in the UK to be timely, likely and sufficient. ✂. We think that there is considerable uncertainty about how Kersia will be in competing for these customers. We consider that it will take time for Kersia to successfully develop the

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<sup>112</sup> Kersia told us that having a hygiene management system is essential to effectively compete for F&B customers.

requirements needed to compete for these customers in terms of sales and technical staff with customer relationships, the range of products and support services and crucially in terms of reputation in servicing these types of customers. Indeed, this is consistent with some of Ecolab's own internal documents regarding its acquisition of Holchem. From what Kersia have told us of their intentions, which we have corroborated through internal documents (obtained through our formal information gathering powers), Kersia's own sales targets are modest relative to the Parties' own turnover figures and we consider that ambition on this scale indicate that Kersia would be insufficient to provide effective competition to the merged entity with in the next two years. We consider that the evidence suggests that Kersia is not likely to provide a timely, likely and sufficient constraint to the merged entity.

7.263 Overall, we provisionally find that the evidence considered above indicates that expansion by Kersia will not prevent or mitigate an SLC in this case.

### ***Buyer power***

7.264 The Parties submitted that some customers have countervailing buyer power.<sup>113</sup> ✂:

(a) ✂

(b) ✂

(c) ✂

(d) ✂

(e) ✂

(f) ✂

(g) ✂

7.265 In considering the Parties' submissions on countervailing buyer power we have had regard to our guidance, that says if all customers of the merged firm possess countervailing buyer power post-Merger, then an SLC is unlikely to arise. However, often only some, not all, customers of the merged firm possess countervailing buyer power. In such cases, the CMA assess the

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<sup>113</sup> See [Merger Assessment Guidelines](#), section 5.9.

extent to which the countervailing buyer power of these customers may be relied upon to protect all customers.<sup>114</sup>

7.266 Our guidance also says that typically the ability to switch away from a supplier will be stronger if there are several alternative suppliers to which the customer can credibly switch.<sup>115</sup> Moreover, for countervailing buyer power to prevent an SLC, it is not sufficient that it merely existed before the Merger, it must also remain effective following the Merger.<sup>116</sup>

7.267 In our inquiry we have heard from the Parties and from third parties that, absent a more formal tender process, ongoing supply is typically based in bilateral negotiations. Therefore, even if some customers have a strong negotiating positions, we have not seen any evidence that any ability from them to keep prices down protects other customers. Further, we have shown in our analysis above that the Merger substantially reduces choice for some customers which would restrict their ability to exercise any countervailing buyer power, even if it did exist before the Merger.

### **Efficiencies**

7.268 The Parties submitted that the Merger will result in purchasing synergies particularly in relation to the purchase of raw materials. Ecolab estimated a 3% cost saving on raw materials as a result of the Merger. In the hearing Ecolab told us that it is 3%. After the Merger Ecolab said that it would be able to offer customers greater flexibility in deliveries since it would have greater control over it by integrating into Holchem's logistics and warehousing. Moreover, Ecolab told us that by combining the salesforces and account managers (generalists under the Ecolab model) and focusing them on geographic areas and industry segments (the sales model successfully adopted by Holchem) they can give customers a better, more flexible and responsive service.

7.269 The Parties have not submitted evidence on whether these purported efficiencies will be timely, likely and sufficient to prevent an SLC from arising in this case.<sup>117</sup> Nor have we seen any evidence that the purported efficiency savings will be passed on to customers,<sup>118</sup> or that they are merger-specific.<sup>119</sup>

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<sup>114</sup> [Merger Assessment Guidelines](#) paragraph 5.9.1.

<sup>115</sup> [Merger Assessment Guidelines](#) paragraph 5.9.3.

<sup>116</sup> [Merger Assessment Guidelines](#) paragraph 5.9.8.

<sup>117</sup> [Merger Assessment Guidelines](#) paragraph 5.7.4.

<sup>118</sup> [Merger Assessment Guidelines](#) paragraph 5.7.9.

<sup>119</sup> [Merger Assessment Guidelines](#) paragraph 5.7.4.

7.270 Therefore, we have not taken the purported efficiencies into account in our provisional findings.

### **Provisional conclusion**

7.271 On the basis of the evidence considered, we have provisionally concluded that the Merger has resulted, or may be expected to result, in an SLC in relation to the supply of formulated cleaning chemicals and ancillary services to F&B customers in the UK.