CMA
Competition & Markets Authority

ECOLAB INC / THE HOLCHEM GROUP LIMITED merger inquiry

Summary of third party calls

1. The Competition and Markets Authority (‘**CMA**’) is investigating the completed acquisition by Ecolab, Inc (‘**Ecolab**’) of The Holchem Group Limited (‘**Holchem**’) (the ‘**Merger**’) under the merger control provisions of the Enterprise Act 2002 (the ‘**Act**’).

2. In relation to this Merger the CMA invited comments of third parties which are competitors to either Ecolab or Holchem.

3. This document provides an overview of the responses and comments of three competitors of Ecolab and Holchem during the CMA’s Phase 2 merger inquiry.

Background

Industry Background

4. All competitors stated that there has been considerable consolidation in the market of cleaning chemicals for food and beverage (‘**F&B’**) customers in the United Kingdom (‘**UK**’) in recent years. There are currently four large competitors in the market – namely Ecolab, Holchem, Diversey Inc. (‘**Diversey**’) and further along Christeyns Food Hygiene (‘**Christeyns**’)

5. In addition, some competitors stated that it is difficult to grow organically in the market. That is because for example, it is very costly to invest in a long period of time for research and development as well as to find the right expertise and knowledge to be able to be competitive on the market.

6. All competitors stated that the market involved a standardised range of formulated cleaning chemicals, thus, besides price, other factors such as a close relationship to the customer and the technical support service provided to the customer are decisive in winning customers.

Unformulated products

7. All competitors stated that customers have the ability to use unformulated chemicals to meet their cleaning needs. Particularly in the F&B sub-segments beverage (brewing) and dairy unformulated caustic and acid are historically used because they use cleaning in place.

8. However, some competitors stated that suppliers of unformulated products are mainly competing with other suppliers of unformulated products and do not constitute direct competition to suppliers offering formulated products. Because they cannot offer the breadth of services and they do not supply formulated products, these suppliers are not a major competitive threat.

9. Furthermore, most of the competitors stated that customers in the market are looking for a so-called one-stop-shop model, i.e. being able to get a complete solution (including services) instead of only a chemical cleaning solution which is only one part of the cleaning process.

Customer segmentation

10. One competitor stated that scale is important. It is not viable for them to do business with small customers spending less than £10,000 annually because of its overhead structure. Conversely, smaller suppliers cannot compete for large customers mainly because of technical support services also need to be provided. Indeed, all competitors stated that there are many smaller suppliers on the market, supplying locally. However, these companies are not competing effectively as they cannot deliver the support service required in the market.

Competitive assessment

11. In addition, all competitors stated that companies acting on an international market usually look for global procurement, i.e. suppliers acting on the UK market only, such as Holchem, do not compete for these companies. These companies, usually large customers, have a preferred supplier list, which acts as an additional competitive constraint. Suppliers on that list have to provide a wide range of services ranging ethical policies to management structures to hygiene structures to distribution networks.

12. In turn, all competitors stated that it is important to have a UK plant to serve UK customers or international customers with a UK business “to give them comfort they are going to be able to get the materials when they want them, at short notice”.

Switching to other suppliers

13. All competitors stated that a customer will invite suppliers to tender the business. To do so, the customer will send a tender document, stipulating precisely what they look for in a supplier, i.e. the service levels required, whether they require free on loan equipment, the necessary hygiene management system and the need for a food terminal disinfectant.

14. However, most competitors stated that the risk and cost of changing the supplier of cleaning chemicals is high. This is particularly true for the food sub-segment, as a food scare would be catastrophic as products would need to be taken off the marketplace. Thus, these customers are very cautious, and risk-averse to changing chemical suppliers. Therefore, to become a customer's 'new' supplier, they have to offer extremely strong technical support, have strong knowledge, be well-positioned within external groups, and have a strong commercial base.

Entry and Expansion

15. One competitor stated that it takes at least two to three years to be able to be a competitive force within the UK market for cleaning chemicals for F&B industrial customers and that it might take more than five years to start leveraging bigger customers. One competitor even stated that it is not a feasible strategy to enter the UK market unless a supplier has a UK industrial footprint.

16. One competitor stated that expanding into the UK F&B market is very difficult as a certain scale in needed.