THE MONOPOLIES AND MERGERS COMMISSION

BET Public Limited Company
and
SGB Group PLC

A report on the proposed merger

Presented to Parliament by the
Secretary of State for Trade and Industry
by Command of Her Majesty
May 1986

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Mr S N Burbridge *(Secretary)*

*These members formed the Group which was responsible for this report (see paragraph 1.2)

APPENDIX 4.2

(referred to in paragraph 4.19)

Financial information relating to SGB Group PLC companies

£ million

	Year ended September		
	1983	*1984*	*1985*
UK scaffolding companies			
Turnover	52·5	60·3	70·7
Profit before tax	2·9	3·7	4·8
Youngman Group			
Turnover	14·1	17·4	19·5
Profit before tax	1·6	2·7	2·8

Source: SGB

Notes:
1. Due to the fact that SGB accounts do not distinguish management charges from finance changes, profits are shown after all charges.
2. For names of companies whose accounts are included in these tables see Appendix 4.1.

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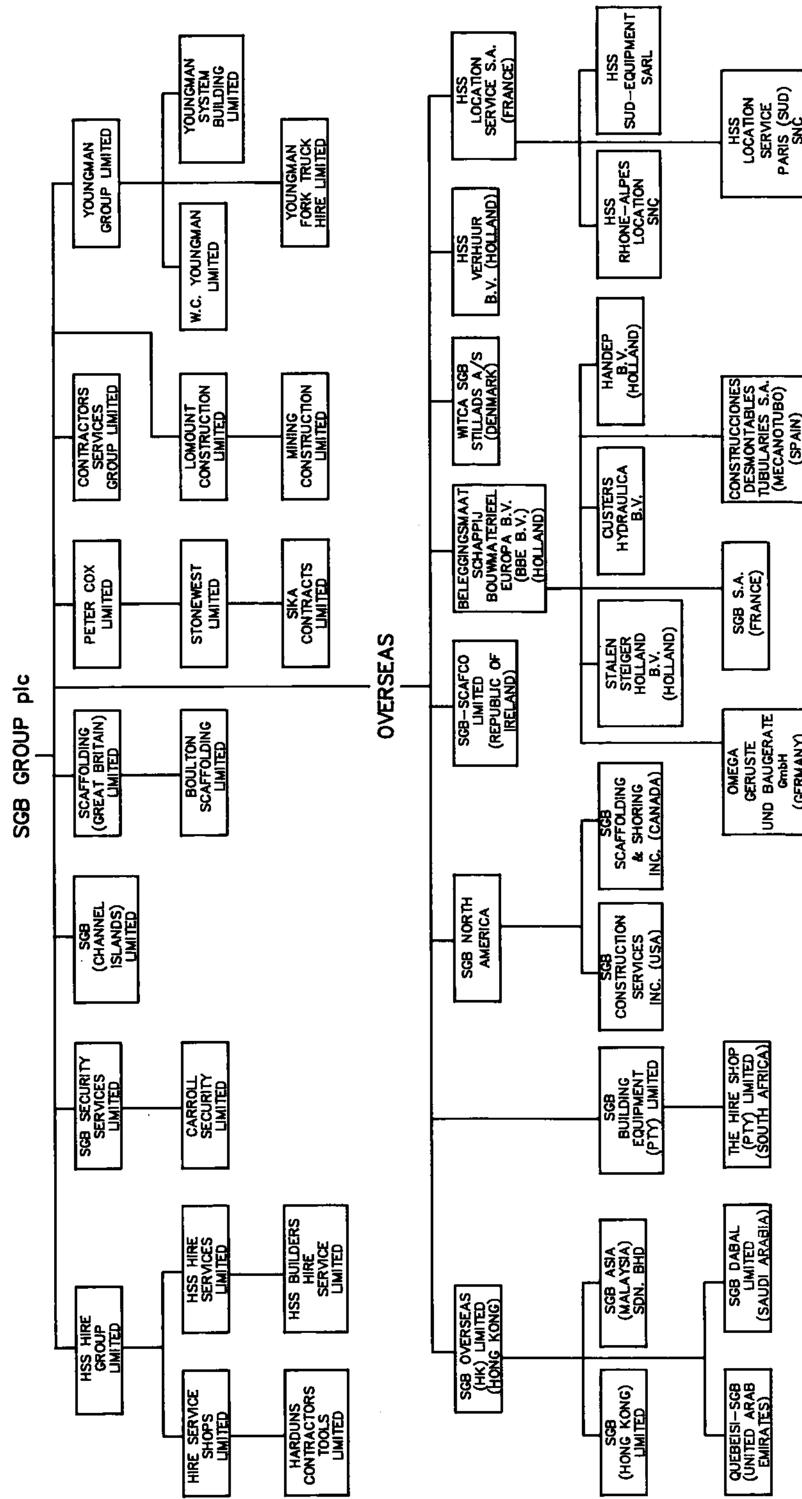
APPENDIX 4.1
(referred to in paragraph 4.19)

SGB Group PLC: corporate structure



Source: SGB

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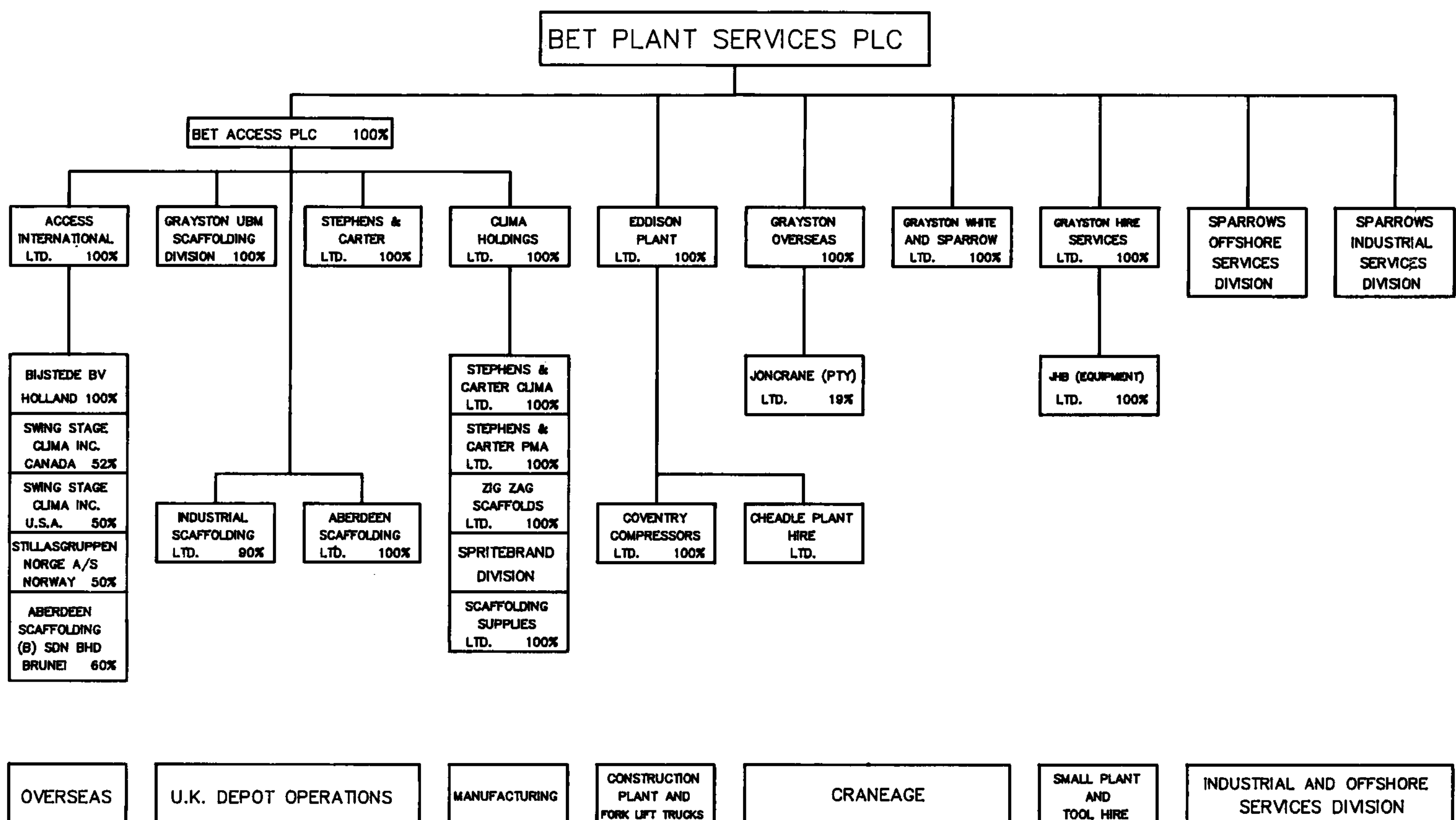
4.2	Financial information relating to SGB Group PLC companies

APPENDIX 3.1
(referred to in paragraph 3.12)

BET Plant Services PLC: corporate structure



Source: BET

7. A list of previous contracts of similar standing and value is prepared to demonstrate the necessary experience and ability to carry out the work and a team of key personnel is nominated for the project. That team approaches all the prospective main contractors on the tender list to discuss the project. This is necessary because each prospective main contractor may adopt a different approach to the sequence in which the work involved in the contract is to be undertaken. Thus, it may be necessary to devise and design a number of scaffolding schemes in respect of one project.

8. Having completed all the preliminary work a full quotation is prepared for each main contractor who proposes to tender. Each quotation will:

(*a*) include firm proposals for the resolution of access, support and shoring problems;

(*b*) complement the prospective main contractor's approach to the timetable for the contract;

(*c*) contain an evaluation of loads and stresses in the proposed scaffolding structure;

(*d*) be accompanied by engineering drawings of the proposed scaffolding;

(*e*) contain a detailed assessment of material and labour requirements; and

(*f*) contain evidence that appropriate insurance cover is in place.

The quotation will be submitted to each prospective main contractor only after final approval by SGB's contracts director.

9. At this stage there will be no certainty as to which scaffolding contractor will obtain the scaffolding sub-contract even though substantial time and resources have already been committed to the project.

10. In a limited number of management contracts the scaffolding sub-contract is put out to tender by the management contractor independently or separately from the main construction contract. Although only one quotation is needed, it is still necessary to discuss the project with each of the prospective main contractors in order to take account of their requirements.

(iii) The award of the scaffolding sub-contract

11. Only after the main construction contract has been awarded will a scaffolding sub-contractor be appointed whether by the main contractor or by the management contractor. Prior to such an appointment, the scaffolding sub-contractor's management team will be interviewed and the quotation reviewed. This is to ensure that the scaffolding sub-contractor has adequate management, material, labour and financial resources and that it will have the flexibility to cope with any changes in the way in which the contract proceeds. The main contractor will also ascertain that the scaffolding sub-contractor is fully insured, and in certain cases require a performance bond. At this stage the price of the scaffolding sub-contract may be the subject of further negotiations. If the scaffolding sub-contractor is unsuccessful, the costs incurred must be written off.

Glossary of terms[1]

Access industry — The business of providing a means of entry to a place of work, for building or maintenance purposes.

Scaffolding — A temporary structure made from steel or aluminium tubes connected (*a*) by loose fittings, (*b*) by connecting devices welded to the tube, or (*c*) as pre-fabricated frames with interlocking devices.

Tube with loose fittings is traditional scaffolding.

Tube with welded devices is system scaffolding.

Frames with interlocking devices are frame scaffolding.

Access scaffolding — A scaffolding structure to provide access to a place of work. Ladders are fitted to the structure for climbing, and scaffold boards provide a safe working platform.

Support scaffolding — (*a*) A scaffolding structure that supports formwork on to which concrete is poured to form floors to bridge decks.
(*b*) A scaffolding structure which holds up a ceiling.

Shoring — A form of support scaffolding used to hold up an otherwise unsafe structure such as a damaged building or a facade during reconstruction.

Formwork — Forms are flat or shaped constructions on to or into which concrete is poured to form horizontal members of a structure such as floors and bridge decks, or vertical members such as walls, bridge abutments or columns.

Towers — A free standing form of system scaffolding, usually of aluminium, built up in sections and connected by ladders, to provide a relatively stable work platform for a limited area.

Cradles — Platforms lowered from the roof of a building either manually or mechanically for access to limited areas. Often used for window cleaning.

Pole ladder — A single section wooden ladder used almost exclusively on scaffolding sites, capable of reaching heights of up to 10 metres.

Contract scaffolding — The design, erection and dismantling of a scaffolding structure using materials and labour provided by the same scaffolding company.

[1]The use of terms in the scaffolding industry varies between companies and individuals. This glossary reflects the MMC's usage of the terms, and as such should not be regarded as having industry-wide application.

Offshore scaffolding Scaffolding provided for access and maintenance work on oil and gas rigs, mainly in the North Sea.

Powered access Lorry, trailer or trolley monitored machines which use electrical or hydraulic power to raise work platforms to points of work.

BSI ladder categories Class 1 – Industrial
Class 2 – Light trade
Class 3 – Domestic

APPENDIX 2.2
(referred to in paragraph 2.7)

Traditional and management contracts and pre-contract work undertaken by scaffolding contractors

A. Traditional and management contracts

(i) Traditional contracts

1. Historically, a client requiring a new or refurbished building instructed an architect to prepare plans in conjunction with consulting engineers and quantity surveyors. The project was then put out to tender and thereafter the architect performed a management and supervisory function on behalf of the client.

(ii) Management contracts

2. Since the mid-1970s there has been an increase in management contracts. Here, a management contractor is appointed at the outset of a project and assumes responsibility for the role of architect, designer, consulting engineer and quantity surveyor, providing the client with a project management team comprising all these skills.

3. The management contractor is responsible for the preparation of the tender documents including those for the main construction contract. As many management contractors are associated companies of main contractors, it is not unusual for the appointment of a management contractor to be on terms that it will not seek a tender for the main construction contract from an associated company. If the main construction contract is awarded to a company associated with the management contractor it will be on the basis of the most competitive tender submitted.

B. Pre-contract work undertaken by major scaffolding contractors

(i) Pre-tender consultations

4. If a project is particularly complex, the views of one or more of the principal scaffolding contractors may be sought by an architect or a management contractor before tender documents are prepared. At this stage the scaffolding contractor might be asked to evaluate the support or shoring problems which may arise on the project and to suggest practical solutions.

5. If such consultation does not take place, the scaffolding contractor only becomes involved when the contract has been put out to tender to the main contractors. The work undertaken by the scaffolding contractor thereafter is the same whether it is a traditional or a management contract.

(ii) Quotations

6. The scaffolding contractor obtains full details of the project from the tender document and its accompanying drawings, and by site inspections. A preliminary assessment is made of the problems likely to be encountered and the scaffolding contractor's estimating, design, surveying and safety departments will be involved in assessing the likely labour, material, transport, management and supervisory requirements.

statistics, in particular the Housing and Construction Statistics. They are, however, based primarily on information submitted by SGB, BET and other main companies engaged in the scaffolding industry and in other activities that we have classified as also part of the overall 'access industry'.

6. Our estimate of the size of the overall access industry, of £565 million in 1984, consists of the following main elements:

United Kingdom access industry 1984

	£m
1. Turnover of 6 major scaffolding companies (SGB, BET, GKN, Palmers, Deborah, Cape)	216
2. Turnover of medium-sized access companies (49 companies, each with turnover of over £500,000)	78
3. Turnover of smaller scaffolding companies	115
4. In-house provision of scaffolding services	80
5. Hire and sale of other access equipment	76
Total	565

7. In arriving at these estimates, 'access equipment' has been defined to include scaffolding, ladders, towers, powered access equipment and cradles, but excluding non-access activities such as formwork. Sale of ladders to retail outlets as well as to trade users has been included in our definition of the overall access market since some domestic ladders may be used for purposes of trade and some production facilities are common to both types of ladder. The estimate of the turnover of smaller scaffolding companies has been based primarily on Department of Employment statistics of the number of smaller scaffolding specialists. We have adjusted these statistics for the possible understatement of the turnover of the smaller companies; but have also made some allowance for the possibility of double-counting, where equipment is hired by the larger firms to the smaller scaffolding companies for use on their own contracts, by excluding the estimated hire of equipment to other scaffolding companies by depots operated by the larger companies.

CHAPTER 1

Introduction

1.1. On 19 December 1985 the Department of Trade and Industry sent to the Commission the following reference:

Whereas it appears to the Secretary of State that it is or may be the fact that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a merger situation qualifying for investigation as defined in section 64(8) of the Fair Trading Act 1973 ('the Act'), in that:

(*a*) enterprises carried on by or under the control of SGB Group plc (a body corporate incorporated in the United Kingdom) will cease to be distinct from enterprises carried on by or under the control of BET Public Limited Company, and

(*b*) the value of the assets which will be taken over exceeds £30 million:

Now, therefore, the Secretary of State in exercise of his powers under section 69(2) and 75 of the Act hereby refers the matter to the Monopolies and Mergers Commission for investigation and report within a period of six months beginning with the date of this reference.

In relation to the question whether a merger situation qualifying for investigation will be created if the arrangements herein referred to are carried into effect the Commission shall exclude from consideration section 64(1)(a) of the Act.

(Signed) R E ALLEN
An Assistant Secretary
Department of Trade and Industry

19 December 1985

1.2. On 7 January 1986 the Chairman of the Commission, acting under section 4 of the Fair Trading Act 1973 and Part II of Schedule 3 thereto, directed that the functions of the Commission in relation to the reference should be discharged through a Group consisting of six members of the Commission under the chairmanship of Mr D G Richards, a Deputy Chairman of the Commission. The composition of the Group is indicated in the list of members of the Commission which prefaces this report.

1.3. Notices inviting interested parties to submit evidence to the Commission were inserted in:

Daily Telegraph	*Building*
Financial Times	*Construction News*
The Guardian	*Construction Plant and Equipment*
The Times	*International Construction*

1.4. In addition we sought evidence and views directly from Government departments, the Confederation of British Industry, the Trades Union Con-

gress, certain trade associations and organisations, companies in the scaffolding trade and other trades relevant to the inquiry, and major customers and suppliers. The views of those who responded are summarised in Chapter 6.

1.5. We received written evidence from BET Public Limited Company (BET) and SGB Group PLC (SGB) and held two hearings with each company. A number of hearings were also held with customers and competitors of BET and SGB during the course of the inquiry.

1.6. Some of the evidence collected during the course of our inquiry was of a commercially confidential nature, and our report contains only such information as we consider necessary for a proper understanding of our conclusions.

1.7. We thank all those who helped us with our inquiry, particularly BET and SGB on whom we made considerable demands for evidence.

Appendix 2.1
(referred to in paragraph 2.1)

Statistics on the United Kingdom access industry

1. There are no definitive statistics available on the United Kingdom access industry, whether from Government departments or from trade associations. A variety of official statistics are available, but collected for different purposes and subject to considerable margins of error. There is also no generally recognised definition of what constitutes the access industry.

Customs and Excise VAT summaries

2. These categorise firms according to their main business, and have a specific code—5012—for scaffolding specialists. Some 1,275 firms were classified as scaffolding specialists in 1984 (1,373 in 1985); and their turnover, based on gross VAT payable, was about £430 million. The number of firms may be somewhat overstated, since firms may remain on the register for up to two years after they have ceased to trade, and some which have registered may not have started to trade. The turnover figures for scaffolding specialists, as derived from VAT returns, may also include a significant element of non-scaffolding turnover, such as formwork. As against this the turnover of scaffolding specialists excludes various access activities—for example, the 'in house' scaffolding activities of construction companies (whose VAT code is based on the company's main activity); provision of powered access equipment (also the subject of a separate VAT code to include other types of mechanical plant); and the sale or hire of access equipment other than through scaffolding outlets.

Department of the Environment *Housing and Construction Statistics*

3. These provide figures on the number of companies, employment and value of work done by scaffolding specialists in the third quarter of each year. In 1984, 920 firms were classified as scaffolding specialists. For construction generally, there is only an 85 per cent response rate to this survey; hence the statistics are liable to be understated. The statistics may also exclude some firms whose main activity is hiring out scaffolding; and (as with the VAT statistics) the other access activities of firms not classified as scaffolding specialists are also liable to be excluded.

The 'black economy'

4. No reliable information is available on the scale of the 'black economy' in scaffolding, and figures for it are consequently excluded from our calculations. The higher estimates put to us are based primarily on the extent of the black economy in construction generally; but it has been argued that the relative scale of black economy activities may be somewhat more restricted in scaffolding.

The Commission's estimates

5. The Commission's estimates of the size of the main access industry markets have regard to the information that can be derived from official

D G Richards *(Chairman)*

M B Bunting

P S G Flint

S C Littlechild

Sir Ronald Swayne

C A Unwin

S N Burbridge *(Secretary)*

12 May 1986

Chapter 2

The access industry in the United Kingdom

2.1. This chapter considers the 'access' industry in the United Kingdom. The access industry provides equipment for access in a variety of ways to working areas for construction or maintenance. We have accordingly defined the industry to include scaffolding, ladders, towers, cradles and powered access equipment such as scissor lift and lorry-mounted access. As described in Appendix 2.1, there are no definitive statistics on the size of the access market; but on the basis of information available, and with the assistance of the main companies, we have estimated the size of the access industry in the United Kingdom in 1984 at some £565 million.

2.2. SGB and BET accounted for an estimated 12·3 per cent and 10·2 per cent respectively of the United Kingdom access industry, a combined market share of 22·5 per cent. Provision within the United Kingdom of equipment and services for access accounted for about 40 per cent of the total turnover of the SGB Group: and about 5 per cent of the turnover of the BET companies.

2.3. For certain uses there is a degree of choice between the different products included in our definition of the overall access industry. Ladders, towers and powered access equipment, for example, may be more economic than scaffolding for access to specific points of work at low levels, as may cradles for use on the exterior of some multi-storey buildings, chimneys and large bridges. Scaffolding continues, however, to account for over 75 per cent of the United Kingdom access industry, and the degree of substitutability would appear to be limited at present. Hence, we believe it is appropriate to consider separately the various access markets discussed below. Estimates of the size of these markets, and the combined turnover of SGB and BET in each of these markets, is summarised in Table 2.1. Unlike other companies in the access industry, both SGB and BET have a significant market presence both in scaffolding and in the provision of other means of access such as ladders, towers and cradles.

Table 2.1 **United Kingdom access industry, 1984**

	Total market £ million	*Combined sales of BET and SGB £ million*	*Combined market share of BET and SGB %*
Overall access industry	565·3	127·0	22·5
A. *Total scaffolding market**	438·3	95·2	21·7
within which:			
(a) Offshore scaffolding market	11·2	5·2	46·4
(b) Industrial and petrochemical projects	51·5	9·3	18·1
(c) Other 'major projects' (over £50,000)	70·0	19·3	27·6
(d) Remainder of scaffolding markets (projects below £50,000)	305·6	61·4	20·1
Sale of scaffold fittings (included in above)	12·2	4·0	32·8
B. *Hire and sale of ladders and towers*	80·0	28·1	35·1
within which:			
(a) Sale of industrial ladders	22·5	7·2	32·0
(b) Sale of domestic ladders	17·5	6·2	35·4
(c) Sale of towers	12·6	5·0	39·7
C. *Other access equipment (cradles, powered access)*	47·0	3·7	7·9

Source: MMC.

*Includes the hire and sale of scaffolding equipment, for which no separate estimates are available.

A. The scaffolding market

2.4. The use of scaffolding varies widely from contracts of below £1,000 providing, for example, working access to a house, to contracts of several million pounds, often of several years' duration, providing access to large industrial or petrochemical sites. As well as access, scaffolding is used for temporary shoring or support of a structure (for example, a facade during reconstruction), which may require sophisticated design and specialist expertise. (We have included scaffolding for such purposes within our definition of the scaffolding and 'access' markets.)

2.5. The majority of scaffolding is still based on tube and loose fittings. More expensive systems scaffolding—tube with welded devices—is economic where rapid erection or dismantling is required, for example in connection with formwork. Available systems scaffolding include Kwikstage of GKN, the Cuplok system of SGB, and Spritebrand of BET. Unlike traditional tube and fittings, the different systems are not generally interchangeable.

2.6. The construction industry is the main user of scaffolding. It is estimated that about 20 per cent of the construction industry's requirements for scaffolding services are supplied 'in-house', using the building contractor's own stocks of scaffolding or his own labour force. Not all construction companies have an in-house scaffolding facility, and some companies use their in-house facilities only for smaller or less complex scaffolding projects; but a number of users have told us that in-house facilities are employed whenever it is more economic to do so. We have therefore included the in-house provision of scaffolding within our estimates of the total market.

2.7. The bulk of scaffolding requirements of the construction industry are acquired from scaffolding companies, either on a sale or hire basis, in which the scaffolding is erected by the user's own labour force or with labour hired by the user; or is provided on a contract basis, in which the scaffolding company supplies and erects the scaffold. Present arrangements for managing major construction projects in the United Kingdom and the process of appointing scaffolding sub-contractors are summarised in Appendix 2.2.

2.8. In addition to specialist scaffolding companies, a number of other companies also provide scaffolding for hire or sale; but this accounts for a relatively small proportion of the market. A number of construction companies, for example, hire our surplus stock. It is also generally acknowledged that, as with construction generally, some scaffolding is undertaken within the 'black economy' by very small firms operating in such a way as to avoid having to pay VAT and other taxes. Estimates we have seen for the black economy element of the scaffolding market range from £25 million to £80 million, the equivalent of some 6 to 18 per cent of our estimated size of the scaffolding market. Since no reliable statistics are available, we have not made any allowance for the operation of the black economy in our estimates of the size or market shares of the scaffolding market; but our report and its conclusions recognise that competition from black economy operators has an effect upon the smaller end of the scaffolding market.

BET would use the domestic product which, all things being equal, it preferred to do as being more convenient. We do not think, therefore, that the merger is likely to lead to an increase in imports.

7.46. SGB also argued that the purchasing power of the merged companies would enable them to obtain preferential rates for steel tube, thus giving them an unfair advantage over other contractors and suppliers. Large customers can generally obtain better purchasing terms, and we do not think that it would be against the public interest if the merged companies managed to do so.

7.47. SGB also suggested that the merger would lead to a reduced range of equipment being stocked and supplied, which would enable foreign system scaffolding ranges to penetrate the United Kingdom market, a result they had up to now failed to achieve. BET said that it intended to maintain and indeed expand the range of equipment which the merged companies would have available. We think it unlikely that the merger would of itself lead to any significant changes in the range of equipment available to customers. As for potential imports, we see nothing against the public interest in foreign equipment providing competition to domestic products (just as BET and SGB are at present attempting to sell their equipment abroad); indeed such additional pressure to preserve the level of competition in the access market is to be welcomed.

The possibility of obtaining more business abroad

7.48. Both BET and SGB have business interests abroad. BET's are larger across the range of that group's business, but quite small in scaffolding. SGB has reduced its overseas interests, but still has a larger presence than BET in scaffolding overseas. BET suggested that its wide experience overseas, and its greater financial strength, while not a major part of its case for the merger, would enable the merged companies to develop their access activities overseas, especially in offshore scaffolding. We accept that the merger might produce a limited benefit in this way.

Summary

7.49. We have concluded that the merger would not have any significant adverse effects on competition in the various sectors of the access market, nor upon R & D and product development, employment, safety and training, or imports. The merger could produce some gains in efficiency, which if achieved could sharpen competition in the industry.

Conclusion

7.50. We therefore conclude that the arrangements in contemplation by BET Public Limited Company for the acquisition of SGB Group PLC may be expected not to operate against the public interest.

transferred to BET's unit, whereas BET said that the two units would be maintained separately. Third, BET took a much more cautious view of the extent to which rationalisation of depots and contracting operations in the regions would be justified.

7.42. We accept that the merger would lead to some redundancies. We think that it would lead to a greater number of redundancies, especially in the Head Offices, than would be likely to occur if SGB and BET remained separate, and continued—as they would need to do—to improve their efficiency in the use of manpower, and were able to take greater advantage of natural wastage. It is difficult to guage how many redundancies the merger may create, because BET has not been able to give us any indication in detail of how it would integrate the two access businesses and what rationalisation might be achieved. It seems to us, however, unlikely that the number of redundancies would be as large as SGB has suggested. Bearing in mind the improvements in efficiency that the merger might provide, we do not think that the effects it may be expected to have on employment would operate against the public interest. We refer in paragraph 7.45 below to the possible effects on employment in the United Kingdom of increased imports as a result of the merger.

Possible effects of the merger on safety and training

7.43. SGB told us that it had long been a leader in attempts to improve safety in the industry and the training of the workforce. It contended that BET had given less priority to these matters. BET gave us information which showed, in its view, that it took full advantage of the training opportunities offered by the Construction Industry Training Board. It acknowledged the strength of SGB's internal training, and assured us that it would continue with, and develop, SGB's training facilities and programmes, together with its own, in the merged companies. It would be in the interest of BET and the merged companies to pursue such a course, and we accept that it would do so.

7.44. The evidence we have received suggests that both BET and SGB have made adequate contributions to the work of the industry on such matters as safety and training, and have provided their due shares of representatives on the NASC committee dealing with these and other industry-wide matters. BET assured us that it would maintain that contribution, after the merger, pro rata the size of the merged companies, and would not reduce the contribution because one of the two major companies had ceased to exist separately.

Possible effects of the merger on imports

7.45. SGB and others suggested that the merger would lead to increases in imports of steel tubing. SGB has in recent years obtained nearly all its supplies from the British Steel Corporation (BSC), whereas BET has met its needs largely by imports. SGB said that, if BET's purchasing policy was extended to cover SGB's requirements, imports would increase. BSC expressed concern at the possibility that BET would decide to import to cover SGB's needs as well as its own, thus endangering jobs in the United Kingdom. BET thought that SGB obtained better terms from United Kingdom suppliers for its larger requirements, whereas BET itself was able to buy tubing more cheaply abroad. BET said that it expected that the merged companies, with their increased requirements, would be able to obtain still better terms in the United Kingdom; if so,

Trends in the scaffolding market

2.9. In contrast with recent trends in the construction industry, employment in specialist scaffolding companies has increased over the last 10 years, as shown in Table 2.2.

TABLE 2.2 **Employment in construction and specialist scaffolding companies, 1974 and 1984**

	Number employed		
	1974 '000	*1984* '000	*% change*
Specialist scaffolding companies	9	12	+33
Other construction companies:			
General builders	273	198	−28
Building and civil engineering contractors	203	92	−55
Civil engineers	73	38	−47
Other companies	300	248	−17
Total—all construction trades	858	588	−31
	£ million	*£ million*	
Construction industry output (1974 prices)	9,733	9,082	−7

Source: Department of the Environment. *Housing and Construction Statistics* 1974–1984 (see Appendix 2.1).

Since the output of the construction industry as a whole has declined over this period, this suggests a greater use of the services of specialist scaffolding sub-contractors as opposed to in-house provision. This trend has been attributed to a number of factors, including the pressure on contractors' margins over the last 10 years, obliging contractors to have regard to the most economic provision of scaffolding and other specialist functions; the requirement since 1979 under the Working Rules of the National Joint Council for the Building Industry and the Civil Engineering Construction Conciliation Board to employ only registered scaffolders at heights over 5 metres; and a greater emphasis on safety as a result of the 1974 Health and Safety at Work Act.

2.10. The number of specialist scaffolding companies has also increased significantly; but, as shown in Table 2.3, the increase has been most pronounced among the smaller companies, and the number of firms in the largest size category has declined.

TABLE 2.3 **Number of specialist scaffolding companies, 1977 and 1985**

	1977	*1985*
Total number of firms	585	1,373
Turnover (1977 prices)		
Below £50k	375	936
£50 to £500k	180	400
£500k to £10m	25	34
Over £10m	5	3

Source: MMC from Customs and Excise VAT statistics (as referred to in Appendix 2.1).

The reduction in the number of companies with turnover of over £10 million at 1977 prices (broadly equivalent to £20 million at 1985 prices) reflects the amalgamation of GKN Mills Ltd and Kwikform Ltd in 1982 to form GKN Kwikform Ltd; and the decline in turnover of Palmers over this period. The growth of the number of smaller firms has also resulted in a loss of market share of the six major companies as a whole (allowing for the effects of the various

amalgamations) over this period. It has been suggested to us that the smaller companies may have acquired a cost advantage of as much as 5 per cent over the major firms.

The structure of the scaffolding industry in 1984

2.11. SGB and BET are two of the three largest companies in the scaffolding industry. As shown in Table 2.4, SGB and BET were estimated to account for about 12·3 per cent and 9·5 per cent respectively of the scaffolding market in 1984, a combined market share of 21·8 per cent.

TABLE 2.4 **Total scaffolding market, 1984**

	£ million	%
SGB	53·7	12·3
BET	41·5	9·5
GKN	48·1	11·0
Palmers	15·7	3·6
Deborah	14·5	3·3
Cape	8·4	1·9
In-house	80·0	18·3
Other	176·4	40·1
Total	438·3	100·0

Source: MMC.

As a result of the proposed merger, the combined company would therefore be about double the size of the second largest company, GKN; and about six times larger than the third and fourth ranking companies—Palmers and Deborah—in the scaffolding market.

2.12. A number of users have told us that only a few firms undertake the larger and more complex projects. The Property Services Agency, for example, has a national list of 20 scaffolding sub-contractors approved for contracts which it lets, of whom only nine (including two BET subsidiaries) are approved for contracts of over £50,000, and four for contracts of over £250,000. A major building contractor also told us that whereas it had a tender list of 25 scaffolding companies for smaller projects, only 15 companies were on its list for projects of over £50,000, and only five (including SGB, GKN and two BET subsidiaries) for projects of over £150,000.

2.13. The rapid growth in the smaller companies suggests that there are few if any barriers to entry to the contract scaffolding industry. Entry may also have been eased by the availability of equipment on hire from the major companies. Several of the local companies to whom we spoke, however, said that there was a limit to the rate at which they wished to expand, or to the size of projects, or the number of larger projects they wished to undertake. Among the constraints to which they referred were the reluctance to tie up a significant proportion of their stock in any one large project; the financial costs of undertaking larger projects; and in certain cases the lack of an in-house design facility (although specialist design consultancies were used by some companies). A number of major scaffolding companies also argued that, whereas there was a large number of small firms in the industry, there was a relatively small number of medium or large firms which had the resources to undertake major contracts.

proved to be accurate, there would be significantly higher cost savings. We accept that some gains in efficiency might be made, and to the extent that they are, competition in the industry could be sharpened.

7.39. Second, there is the question of how the large SGB scaffolding operation would be combined with the group of smaller BET scaffolding companies. BET told us that it had not decided precisely how to do that, and wanted to examine the task carefully with the SGB management after the acquisition had been made; it would want to preserve and build on those areas where SGB's performance was strong. BET also said that, being a large group, it would be able to make available sufficient management resources to ensure that the merger was efficiently implemented. SGB suggested that, in the absence of any indication from BET as to how the merger would be implemented, some difficulties over the integration of the two companies could be foreseen; for example, how depots would be rationalised and operations integrated while preserving the value of the names of SGB and the BET companies. While acknowledging that difficulties may arise, we do not think that a carefully planned merging of the activities of the two access activities need lead to inefficiency or to loss of competition with third parties.

R & D and product development

7.40. BET argued that the merger would assist the process of introducing new technology and new products into the industry, such as in developing the use of powered access as was happening in the USA. BET also argued that a greater expenditure on R & D might be justified because of the larger base of operations which the merged companies would have. SGB, on the other hand, argued that BET's stated objectives were to achieve market domination and maximise profits; these objectives were not, in its view, consistent with spending adequate amounts on R & D and product development. Indeed, in its latest report and accounts BET Access had said that it had no direct involvement in R & D. BET told us that it devoted some effort to scrutiny of developments in the access market, and to product development. The evidence we have received supports the view that SGB has been a leader in the industry in R & D and product development. BET itself acknowledged SGB's efforts, and assured us that it would continue with, and build on, the efforts of both companies in these fields. While we think that the merger is not necessary in order for the two companies to invest as much as is required in R & D and product development (bearing in mind that no expensive technology is involved), it would clearly be in BET's interest to see that the merged companies does not fall behind in these matters, and we do not think that the merger would lead to that happening.

Possible effects of the merger on employment

7.41. BET gave us an estimate of some 200 redundancies arising from the amalgamation of the two Head Offices and some depots; it expected that a large part of such redundancies would be achieved by means of natural wastage. SGB gave us a much higher estimate of redundancies, approximately 600 plus those arising from combining the two ladder manufacturing units. The main reasons for the differences between BET's and SGB's estimates were as follows. First, SGB suggested a much higher total for redundancies at the Head Offices. Second, SGB argued that its ladder manufacturing unit would be

over-supplied and very competitive. In one sector, domestic aluminium ladders, a considerable part of the supply is to the DIY multiples, which have considerable purchasing power.

7.34. At the time of its offer to acquire SGB, BET said that it was prepared to sell SGB's ladder manufacturing business. It subsequently told us that it did not consider that that step was necessary on competition grounds. We think that, in the situation described in the preceding paragraph, it would not be possible for the merged companies to exercise monopoly power in any part of this market. We therefore see no necessity to recommend that BET's offer, to divest SGB's ladder manufacturing business if the merger were to take place, should be pursued.

Towers, cradles and powered access equipment

7.35. These are comparatively small sectors of the access market (see paragraphs 2.32 to 2.35). In towers and powered cradles the merged companies would have substantial shares of the market: in powered access equipment its share would be minimal. It is not difficult to enter these markets, and competition has been increasing. The merger would have no significant effects on competition in these cases.

Scaffolding fittings

7.36. Although BET argued that forged and pressed steel fittings represent two separate markets, the evidence we have received suggests that for most purposes there is one market. Total sales of fittings were £12.2 million in 1984; the merged companies' share would have been about 33 per cent. SGB argued that that share would enable the merged companies to withhold supplies from small scaffolding competitors, or raise their prices to them, thus weakening competition from them; some scaffolding companies expressed similar concern. Alternatively they could discriminate in their purchasing or reduce their prices so as to weaken or eliminate competition from other suppliers, thus enabling them to raise prices later. But there are three other suppliers of consequence in the United Kingdom. A quantity of fittings is also imported; imports are not at present an important source of supply, but they could increase. Production of fittings does not call for large facilities or involve expensive technology, so that it is not difficult to enter the market. We do not think therefore that the merged companies would be able to exert monopoly power in this market, or do the things which SGB and others suggested it would be able to do.

Other issues of public interest

7.37. We turn now to consider the possible effects of the merger on other issues of public interest.

The possible effects of the merger on efficiency

7.38. Two aspects of efficiency are involved. First, BET said that it would be able to rationalise some depots and the two Head Offices of the access operations, as well as making some other economies. It estimated the cost savings from this at around £3 million per year. SGB gave us a much higher estimate of redundancies from the merger (see paragraph 7.41); if that estimate

2.14. Given the views we have received from users and competitors, it is reasonable to examine the separate markets for the three main categories of major contracts, where the nature of competition and barriers to entry may be somewhat different from the scaffolding market as a whole. This is done in paragraphs 2.15 to 2.23.

Offshore projects

2.15. The average value of offshore access contracts is some £200,000; but the largest contracts may be of several million pounds and last for more than a year. Customers for these contracts are the oil majors, and competitors of general scaffolders the specialist offshore service companies. Table 2.5 shows the estimated value and market share of the offshore market.

TABLE 2.5 **Offshore access contracts, 1984**

	£ million	%
SGB	2·8	25·0
BET	2·4	21·4
Other 4 major companies*	2·8	25·0
Other	3·2	28·6
Total	11·2	100·0

Source: MMC

*GKN, Palmers, Deborah and Cape.

The combined market share of BET and SGB was therefore about 46 per cent.

2.16. In addition to BET and SGB, at least nine other companies at present undertake major offshore access contracts, and a further six companies have competed for major offshore contracts in recent years. The majority of these other companies offer a range of services, providing maintenance services as well as scaffolding, but tend to undertake the smaller offshore contracts. It has been suggested to us that other offshore service companies could also develop scaffolding activities. The market is, however, restricted to a relatively small number of contracts—about 50 in total (of which 15 represent over 95 per cent of the value of work available)—and to about 20 customers. We understand that some of the oil companies rotate their servicing (including scaffolding) contracts on a regular basis to encourage competition and choice.

Industrial and petrochemical projects

2.17. Industrial and petrochemical contracts can also be of several million pounds value and last for more than a year. Customers letting these contracts are generally large corporations (eg ICI, CEGB), or their designated managing contractors. Industrial and petrochemical projects, although predominantly for access rather than support, may be relatively complex due to the shapes involved, hazardous environment, and stringent safety regulations. The larger contracts may also require the establishment of a scaffolding depot on site. Table 2.6 shows the estimated value and market shares of industrial and petrochemical scaffolding contracts in 1984.

TABLE 2.6 **Industrial and petrochemical scaffolding contracts, 1984**

	£ million	%
SGB	3·3	6·4
BET	6·0	11·7
Other 4 main companies*	24·8	48·2
Other	17·4	33·7
Total	51·5	100·0

Source: MMC.

*GKN, Palmers, Deborah and Cape.

2.18. The combined market share of SGB and BET was about 18 per cent. However, the four other major companies together held about half of this market, and all give high priority to this part of their business. In addition, about 25 other companies have recently secured industrial and petrochemical contracts; and we are aware of a further 10 companies who have tendered for such contracts. The other firms competing for major contracts are generally regional contractors, which are able effectively to compete for a relatively small number of projects within their region.

Other major projects (projects exceeding £50,000)

2.19. As discussed in paragraphs 2.12 and 2.13, both users and smaller scaffolding companies have told us that the majority of the smaller scaffolding companies are constrained in their ability to undertake larger contracts. Definition of what constitutes a major project is to an extent arbitrary, and companies' ability to compete for these contracts may also depend on the complexity as well as size of the project. But the definition we have adopted—of projects where the value of scaffolding work is in excess of £50,000—does correspond to the valuation of large contracts suggested to us by several users and scaffolding companies. Table 2.7 shows the estimates of the approximate value of the market and market shares of other major projects in 1984; these estimates including both contract scaffolding and the hire and sale of equipment for major projects which may itself require some design work by the supplier of the scaffolding.

TABLE 2.7 **Other major projects, 1984**

	£ million	%
SGB	16·4	23·4
BET	2·9	4·1
Other (including in-house)	50·7	72·5
Total	70·0	100·0

Source: MMC.

The combined market share of SGB and BET in other major projects was about 28 per cent. Estimates of the total market, and of the shares of individual suppliers, are however particularly difficult since it is not always possible to identify the hire or sale of equipment for particular 'major projects'. SGB believes it hires and sells equipment on a substantial scale for use by building contractors on major projects; BET on the other hand believes it supplies only a very limited amount of equipment for such uses.

2.20. To throw further light on the structure of the major projects market we also asked the six largest firms to supply details of the major contracts for the

would then be unable to meet an upsurge in demand, and would give priority to their own contracting operation or increase their prices. BET told us that it intended to maintain, and indeed expand, the range of equipment which the merged companies would make available. We do not think that the merger would exacerbate to any significant degree the periodic shortages of equipment which we understand are characteristic of the construction sector because of the severity of fluctuations in demand for its products.

7.30. Other witnesses expressed anxiety about the availability of systems scaffolding (such as Cuplok), suggesting that the merged companies might exert pressure on customers who rely on particular brands of systems scaffolding, for example, by increasing prices. The evidence we have received suggests that it would be expensive for a customer companies (whether a building or scaffolding company) holding large stocks of one system to change to another. But while we understand the concern, we do not think that the merged companies would be able to put pressure on customers in this way. For example, SGB's Cuplok system has made only limited inroads into the systems scaffolding market against the GKN product, Kwikstage. Putting pressure on customers who rely on Cuplok would only weaken its competitiveness against Kwikstage. BET told us that it intended to supply Cuplok along with its other systems scaffolding, and we think that it would be in its interest to do so. As for the other kinds of systems or brand equipment, where the scale of use is lower, we understand that there are alternatives to which customers can turn.

7.31. Some building companies and other suppliers also suggested that the merged companies might reduce their prices for hire and sale, in order to eliminate small competitors in the hire and sale business in selected localities. We do not think they could successfully do so, or that they are likely to try. If they did, they would then be assisting the small scaffolding companies who are competing so successfully against BET and SGB. Nor could the merged companies expect to increase hire and sale prices at a later stage, even if price reduction had had some impact on competition, because the remaining competitors could then undercut their prices, or new suppliers could readily enter the market. In our view competition is and will remain strong enough to rule out this course of action by the merged companies on any significant scale.

Other sectors of the access market

Ladders

7.32. The value of ladder sales in 1984 is estimated at £40 million, and the merged companies' share of the market for industrial/trade and for domestic ladders respectively at 32 and about 35 per cent. The respective BET and SGB subsidiaries, Stephens and Carter Ltd and W C Youngman Ltd, are two of the three largest suppliers, but there are some two dozen other small manufacturers. In wooden pole ladders, which we understand are the type used almost exclusively on scaffolding sites, the merged companies' share would be about 60 per cent; the value of this market is estimated at some £3 to £4 million per annum.

7.33. The evidence we have received is that the ladder market is an easy one to enter, particularly in aluminium ladders for which the demand has grown. The technology required is relatively straightforward. The market has become

many competitors. If they withheld supply, they would be leaving the field open to them. BET told us that the merged companies would continue to supply equipment to others, including scaffolding companies; it regarded this as an important part of the business.

7.27. We examined the geographical distribution of depots with comprehensive ranges of equipment for hire and sale (which we refer to as 'major' depots) in order to assess the possible effects of the merger on competition between them. The evidence we received suggested that most of the hire and sale business cannot be economically transacted over a distance of more than about 20 miles from the depot. The results of our examination, on that basis, are set out in paragraph 2.27 and Table 2.11. These show that six of the 100 BET and SGB depots are at present more than 20 miles from any other major depot. As a result of the merger, a further eight depots owned by the merged companies would be more than 20 miles from major depots owned by other suppliers. In other locations the merged companies' depots would be within 20 miles of at least one major depot owned by another supplier, and 57 of their 100 depots would be within 20 miles of at least three major depots owned by other suppliers. SGB suggested that the merged companies' depots would be in particularly strong positions in the South-West and in East Anglia. Our examination showed that four SGB or BET depots (of the six mentioned above) in these regions are at present more than 20 miles from any other major depot—a situation which the merger would not change. As a result of the merger a further seven depots owned by the merged companies would be more than 20 miles from major depots owned by other suppliers. The remaining eleven depots of the merged companies in these two regions would be within 20 miles of at least one major depot owned by another supplier.

7.28. Against this background, we then considered the various courses of conduct which the merged companies might pursue; in particular, that they might increase its prices (as SGB and others suggested), or that they might withhold supply altogether. A small number of SGB or BET depots already face no or limited competition, but we have not received complaints that they are pursuing such courses of conduct. If the merged companies raised their prices, or withheld supply, we think they would lose business to their many existing competitors, or encourage others to enter the market. In particular the smallest customers, who might be most vulnerable to such action, would find it easier to satisfy their requirements from the smaller suppliers, either existing ones or new entrants. We accept that the smallest suppliers do not offer such comprehensive ranges of equipment as the main depots, but they would be in a position to exploit any problems which the merged companies might create for customers on price or availability of supplies. We are satisfied that the existence of these alternative means of supply would effectively deter the merged companies from pursuing such courses of conduct.

7.29. SGB also suggested that the merged companies would find it uneconomical to supply both of the ranges of equipment at present stocked by the two companies, with the consequence that a narrower unified range would restrict choice for the smallest companies, leave them with useless stock, or make it uneconomical for them to use their existing stock. The merged companies would also, SGB argued, reduce the total quantity of stock carried; they

erection of scaffolding (excluding hire and sale) which they secured during 1985. Additionally we asked SGB and BET, but not the other four, for details of contracts for which they unsuccessfully tendered. Although the contracts on which this information is based still represent only a sample, albeit substantial, of major contracts awarded over this period the analysis (summarised in Table 2.8) provides a useful indication of the market for large contracts.

TABLE 2.8 **Major contracts secured (general contracting) in 1985***

	Number of contracts secured		*Value of contracts secured‡*	
	Number	%	*£ million*	%
SGB	38	22	3·7	20
BET	16	9	1·3	7
Other 4 major companies‡‡	33	19	3·9	21
Other (including in-house)	89	50	9·8	52
Total	176	100	18·7	100

Source: MMC.

*Contracts of over £50,000, excluding offshore, industrial and petrochemical.
‡Based on value of tenders—actual contract value may be higher due to 'extras to contract' which are normal on most jobs.
‡‡GKN, Palmers, Deborah and Cape.

2.21. The combined market share of SGB and BET in major projects secured was about 30 per cent by number, somewhat lower by value, although this may be slightly overstated given the basis of the sample on which the analysis was based. BET's share of the major contracts was, however, significantly lower than that of SGB. Excluding contracts which were awarded in-house, the combined market share was higher—about 35 per cent.

2.22. In addition to the six major companies, some 40 other—mainly local—companies in this sample obtained contracts of over £50,000. In general each of these other companies secured only one or two major contracts over this period. The available information suggests that most of these local companies only tendered for one or two major contracts, but were highly successful in those contracts for which they did tender. About one-half of the contracts for which tenders were invited were either awarded to these smaller local firms, or undertaken in-house.

2.23. Table 2.9 summarises the information on the more complex major projects for which SGB tendered.

TABLE 2.9 **Analysis of SGB tenders for more complex major projects, 1985**

	Number of contracts secured		*Value of contracts secured*	
	Number	%	*£ million*	%
All projects involving design				
SGB	14	33	1·5	25
BET	1	2	0·2	3
Other major companies*	13	30	1·8	30
In-house	4	9	0·8	13
Other	11	26	1·7	29
Total	43	100	6·0	100
Of which projects involving support or shoring				
SGB	5	42	0·5	25
BET	—	—	—	—
Other major companies*	5	41	0·7	35
In-house	—	—	—	—
Other	2	17	0·8	40
Total	12	100	2·0	100

Source: MMC.

*GKN, Deborah and Cape.

Although this analysis, being based only on projects for which SGB tendered, may overstate SGB's market share, it does suggest that SGB may have had a higher market share in the more complex projects involving full design, including support or shoring. The number of local firms undertaking and competing for such contracts was more limited—10 other companies secured design contracts, and two support and shoring contracts; and the proportion of contracts undertaken in-house was also somewhat less for these more complex contracts. BET also, however, had a low share of these more complex contracts, and although it tendered for the majority of these contracts secured only one such contract in this sample. BET told us that it cannot compete effectively for contracts requiring more complex design work and does not compete at all for projects solely involving support, shoring or formwork.

Other scaffolding (projects below £50,000)

2.24. In 1984 about 70 per cent of the scaffolding industry's turnover, and about 60 per cent of the combined scaffolding turnover of SGB and BET, was in smaller projects of below £50,000 (including hire, sale and contracting). As shown in Table 2.10, the combined market share of SGB and BET in smaller projects was about 20 per cent (somewhat less if allowance is made for the turnover of black economy operators). We have been told that competition for smaller scaffolding projects is intense, with the recent entry into this part of the market by hundreds of smaller competitors, and competition from black economy operators.

TABLE 2.10 **Other scaffolding (projects below £50,000), 1984**

	£ million	*%*
SGB	31·2	10·2
BET	30·2	9·9
Other 4 main companies*	47·5	15·5
Other	196·7	64·4
Total	305·6	100·0

Source: MMC.

*GKN, Palmers, Deborah and Cape.

Supply of equipment to scaffolding contractors

2.25. Hire and sale of equipment to other scaffolding contractors accounted for some £9 million of SGB's and BET's income, and the availability of supply may affect competition in the scaffolding market generally. The requirements of smaller scaffolding contractors are generally insufficient for purchase direct from manufacturers (such as British Steel Corporation); and, as mentioned in paragraph 2.13, availability of equipment on hire has also enabled a number of smaller firms to become established in the industry. We have also been told that capital requirements may be greater for the hiring out of scaffolding equipment.

2.26. No relevant statistics are available on the total value of hire and sale of equipment to scaffolding contractors. BET and SGB have, however, identified about 250 depots of major hirers of access equipment. The merged company would initially own 100, or 40 per cent, of these major depots and, by implication, possibly a similar proportion of the stock of equipment available from these depots for hire.

The hire and sale of access equipment

7.24. Access equipment (principally scaffolding equipment) is hired or sold by many enterprises. No statistics are available for the hire and sale of equipment as a separate market, but we believe that the greater part of the business is included in the market figures already considered in this chapter for the access market, since they embrace the total turnovers of the scaffolding companies, large and small. At the top end of the market, hire and sale is conducted from some 250 depots supplying a comprehensive range of equipment, belonging to BET, SGB, GKN, Palmers, Deborah, and other larger companies. These companies have depots throughout Great Britain, and are important suppliers to the building industry, and to the small scaffolding companies. In the case of BET and SGB, some three-quarters or more of their hire and sale turnover is to the building industry, and the remainder mainly to small scaffolding companies. Hire and sale of equipment would amount to nearly one-third of the total turnover in the access activities of the merged companies. The smaller scaffolding companies also hire and sell equipment, as do other companies whose business is in the hire and sale of plant and equipment rather than in scaffolding. BET told us that it had found over 600 companies advertising as hirers of scaffolding equipment in 32 locations in which it and SGB both had depots supplying a comprehensive range of equipment. This suggests that there are probably over a thousand such companies in the country as a whole.

7.25. SGB pointed out that the merged companies would own some 40 per cent of all the depots offering a comprehensive range of equipment for hire and sale. It would dominate the supply of all basic scaffolding equipment to the small projects sector, and the terms and price for the supply of such equipment. In the South-West and East Anglia they would own the majority of the depots supplying a comprehensive range of equipment; in these and any other local monopoly situations resulting from the merger, they could increase prices or control the availability of equipment in the small projects sector, thus weakening competition against their own contracting operation. SGB also argued that the merged companies would have such a strong market position that they would be able to withhold supplies altogether to competitors in the small projects sector. SGB did not consider that the numerous other companies advertising the hire and sale of access equipment represented an effective alternative to the larger suppliers, or that the number of outlets would increase if the merger were allowed to proceed.

7.26. BET said that SGB and itself were by no means the only significant suppliers of equipment to other companies in the access industry. In the majority of cases, SGB and BET depots were subject to real local competition. For hire or sale of equipment, the effective operating radius of a depot was greater than the radius for contracting operations, which involved the heavy costs of transporting teams of scaffolders. If large quantities of equipment were hired, distance from the depot was virtually irrelevant. BET suggested that it was immaterial that the very numerous small suppliers might not have the breadth of range of the larger companies; hirers could obtain their requirements from one or a number of depots. Much of the business was on a very small scale. BET did not therefore believe that any companies who hired or bought from SGB or BET would be disadvantaged by the merger. If the merged companies increased prices, they would simply lose business to their

7.19. In this sector, the merged companies would also face strong competition from the in-house operations of the building companies, many of whom decide, on the basis of price, whether to undertake their scaffolding in-house or employ the specialist scaffolding companies. Some of the larger building companies undertake the majority of their scaffolding work in-house; while others do not, we think that many could do so if it became desirable or necessary, as a number of them confirmed to us would be the case if the merged companies increased their prices. We were also told that many of the larger building companies were able to undertake the most complex projects, and some did so as a matter of choice (and price). The evidence suggests that building companies have recently put more of their scaffolding requirements out to contract; some witnesses associated that with a tendency for customers to use project management contracts, and SGB suggested other reasons. Although the majority of the building companies who commented on the merger thought that it would lead to higher prices and a deterioration in service, especially for large or complex scaffolding projects, we have no doubt that both the actual use of in-house resources by the builders, and the potential threat of still greater use of them, would be an important factor in limiting the merged companies' ability to increase prices or reduce the quality of service.

7.20. The smaller scaffolding companies and the building companies have about 50 per cent of this market by value (a share which corresponds with their achievement in winning contracts for these major projects recently). This situation shows the strength of the competition facing the large scaffolding companies. We do not think that the merger would lead to a reduction in competition from these sources.

The scaffolding market—smaller projects

7.21. We defined these projects as those below £50,000 in value. The market is estimated to have been some £305 million in 1984, and the merged companies' share about 20 per cent. This part of their business would be very important for the merged companies since their turnover on these smaller scaffolding projects, at £61 million, would be about 65 per cent of their total scaffolding turnover, and about 50 per cent of their turnover in all access operations.

7.22. All the evidence we have received has been to the effect that competition for the smaller scaffolding projects is intense, and has become more intense in recent years (partly from operators in the black economy); and that the largest companies have seen their share of the total market reduced because of the entry into this part of the market of some hundreds of new competitors in the past decade. SGB agreed that, apart from the hire and sale of equipment, the merger would not have any significant effect on competition for these smaller projects (see paragraph 5.74.).

7.23. BET told us that one of its main objectives in seeking to acquire SGB was to reduce costs and be more competitive, in order to halt and if possible reverse the decline in the market shares of the largest scaffolding companies. We do not believe that such opportunities for cost reductions as the merger could provide would have much impact on the prices the merged companies might charge for their smaller projects. Nevertheless BET's intention to do what it can to counter the loss of market share may serve to support the intense competition which can be expected to continue.

2.27. We have examined the geographical distribution of major depots to assess whether any significant local monopolies could be created as a result of the merger. The analysis is summarised in Table 2.11. Evidence we have received from a number of companies suggests that it is economic to transport most quantities of scaffolding over a distance of about 20 miles; over 80 per cent of SGB and BET depots are located within 20 miles of those of the other company. Six of the 100 SGB and BET depots are at present more than 20 miles from any competing major depot, as a result of the merger a further eight depots would be more than 20 miles from any competing major depot. In all other locations there would be competition from at least one major depot within a 20 mile radius if the merger went ahead, and in 57 locations there would be at least three competitors within 20 miles. In the South West and East Anglia, four SGB or BET depots are at present more than 20 miles from any major depot. As a result of the merger a further seven depots owned by SGB or BET would be more than 20 miles from major depots owned by other suppliers. The remaining eleven depots in these two regions owned by SGB or BET would be within 20 miles of at least one major depot owned by another supplier.

TABLE 2.11 **Competition with SGB/BET depots, from depots of major hirers of access equipment 1984**

	SGB depots	*BET depots*
Total number of depots	53	47
Competition over a 20-mile radius		
(a) SGB and BET only	4	4
(b) SGB, BET and:		
1 other supplier	4	4
2 other suppliers	4	5
3 other suppliers	6	8
4 other suppliers	9	3
5 other suppliers	6	5
over 5 other suppliers	8	12
(c) No local competition	2	4
(d) Competition only with firms other than SGB/BET	10	2

Source: MMC.

In addition to the major hirers of equipment, many other firms advertise the hire or sale of scaffolding equipment locally in, for example, Yellow Pages.

Supply of scaffolding fittings

2.28. Boulton Scaffolding (a subsidiary of SGB) and Scaffolding Suppliers (owned by BET) account for about one-third of the manufacture of scaffold fittings. Scaffold fittings are of two varieties—pressed fittings as made by SGB, and the more expensive but stronger and longer-lasting forged fittings made by BET (and also supplied under subcontract to SGB by Arthur Edge & Co Ltd). BET have told us that forged fittings are required for more specialised uses; a number of other companies have told us that these two types of fitting do the same job and that their choice of fitting would over time be affected by the price differential, although they would not mix the type of fittings used on a particular job. On balance therefore it would seem valid to regard the supply of scaffold fittings as one market. Table 2.12 shows the estimated value of the market and market share for the sale of scaffold fittings to third parties (ie excluding in-house supply for hire stocks; both SGB and BET also produce, or acquire from other manufacturers, fittings for their own hire stocks). Some five

other companies manufacture scaffolding fittings in the United Kingdom; three of them have annual revenues in excess of £1 million from the sale of fittings.

TABLE 2.12 **Sale of scaffold fittings, 1984**

	£ million	%
SGB	3·3*	27*
BET	0·7	6
Other suppliers	8·2	67
Total	12·2	100

Source: MMC.

*Including sale of fittings manufactured under contract for SGB.

Procurement of steel scaffold tube

2.29. SGB and BET have also supplied us with details of their own procurement of equipment. SGB purchased most of its steel scaffold tube requirements from British Steel Corporation in 1984: BET over the last three years has purchased some 75 per cent (on average some £700,000 per annum) of its requirements for steel scaffold tube from overseas sources. It is estimated that BET and SGB combined account for about 40 per cent of United Kingdom purchases of new scaffold tube.

B. Ladders and towers

2.30. W C Youngman, a subsidiary of SGB, and Stephens and Carter of BET are amongst the leading three manufacturers both of ladders and of towers in the United Kingdom, as well as being major distributors. Table 2.13 shows the estimate of the market for sale and hire of ladders and towers in 1984.

TABLE 2.13 **Sale and hire of ladders and towers, 1984**

	£ million	%
SGB	14·5	18
BET	13·6	17
Other suppliers	51·9	65
Total market	80·0	100

Source: MMC.

The estimates in Table 2.13 include sale and hire by scaffolding companies (in part complementary to the supply of scaffolding equipment), and by hire shops, and also the sale of ladders to retail outlets. There are, however, significant differences in the products sold for industrial or domestic use, with the recent introduction of British Standards distinguishing between heavier ladders for industrial and trade purposes and lighter domestic ladders (see Glossary).

2.31. Table 2.14 therefore shows the estimated market for sale of ladders, distinguishing between industrial ladders (sold to scaffolding companies and to builders' merchants), and domestic ladders (sold to retail outlets and also, to a lesser extent, to builders' merchants).

and BET together won a similar share, about 30 per cent, of the major contracts which have recently been awarded, and for which we have information. As explained in paragraph 2.19, the definition of this category is to some extent arbitrary, namely all projects above £50,000, excluding the offshore and industrial and petrochemical projects already discussed. It covers not only the general run of access projects, whether more or less complex, but also the most complex projects involving support, shoring or formwork. Some projects come within more than one of these categories.

7.16. BET's current share of this sector is just over 4 per cent. It obtained less than 10 per cent of the major contracts recently awarded, and a negligible proportion of those involving more complex design work. BET told us that it cannot compete effectively for contracts requiring more complex design work, and does not compete at all for contracts solely involving support, shoring or formwork. One reason for this situation, BET said, was that the member companies of BET Access were all comparatively small companies when acquired, undertaking relatively straightforward access scaffolding but not competing for the large and more complex contracts. BET explained that the position had not changed since their acquisition. It considered that the competition in this sector was so intense that the cost of creating the additional design capacity and the resources necessary for success in tendering for the more complex scaffolding projects was not justified in present conditions.

7.17. Because of BET's very small market share the merger would not have a significant immediate effect on competition in this sector. SGB argued (though BET denied) that the merged companies would attempt to increase prices, or increase profits by reducing the quality of service offered. However, while they would face less competition in this than in other sectors from GKN and the other few large scaffolding companies, there is strong competition from the smaller regional or local scaffolding companies, especially for the less complex projects. We think that, because of the importance of the large local projects to these companies, they can be expected not to follow any price increases by the merged companies. SGB argued that these smaller companies are not competitive for the most complex projects, either at the pre-contract stage or later, and we have seen evidence to support that view. But, since BET is also relatively unsuccessful in competing for the most complex projects, the merger would not have a significant impact on the attempt of the group of smaller companies to compete for such projects.

7.18. SGB and others suggested that, alternatively, the merged companies might, by reducing prices, attempt to drive local scaffolding competitors out of the market. We have already discussed this issue in the case of industrial and petrochemical projects (see paragraph 7.14). We think that if the merged companies tried to do this, they would be even less likely to succeed for the general run of the less complex access scaffolding projects in this sector, for which the smaller scaffolding companies are stronger competitors than they are for the somewhat more complex industrial and petrochemical projects. The merged companies might, by reducing prices, cause some building companies to place contracts with rather than use their own in-house resources. But this would not be a profitable course for them to pursue in the long run because, if they raised prices later, the builders could turn back to using their in-house resources.

7.12. SGB argued that the merged companies would have a share of the market that would normally imply a considerable degree of market power and would be able to increase prices. However, there are reasons for viewing this situation with less concern than might otherwise be aroused. The number of customers is not large, and they are mainly of such a size and with such purchasing power as to be able to resist any attempts by the merged companies to increase prices. Each customer places only one or two contracts per year. There are about a dozen active competitors to BET and SGB at present and others who have competed recently. A substantial proportion of the competitors are companies specialising in offshore servicing, where a very high level of performance and safety is required. For all these reasons we believe that the merger would not have any significant effect on competition, prices or standards of service in this comparatively small part of the market.

(b) Industrial and petrochemical scaffolding projects

7.13. We estimated this sector at £51.5 million in 1984; the merged companies' share would have been about 18 per cent. The projects mainly involve repair and maintenance work on industrial installations. Because some of them are very large and take a long time to complete, some caution is needed when considering market statistics for a particular year. Nevertheless, the merged companies would not be dominant suppliers. They would face strong competition at two levels. First, the other four main scaffolding companies (GKN, Palmers, Deborah and Cape) together hold about half of this market sector (see Table 2.6 in paragraph 2.17); and all give high priority to this part of their business. Second, there is a large number—some 30 or more—of smaller scaffolding companies competing mainly on a regional or local basis to hold some third of this market. We do not think that in this situation the merged companies would be able to raise prices arbitrarily (as SGB itself substantially acknowledged—see paragraph 5.71).

7.14. We also considered whether, as SGB argued, the smaller competitors could be weakened or eliminated if the merged companies reduced prices against them on a selective or localised basis. BET denied that it would engage in predatory pricing. We do not think that if it tried it would succeed in eliminating competition from these companies to any significant extent. As shown in paragraph 2.10, the number of these competitors, mostly companies with annual turnover between £500,000 and £10 million, is considerable, and has remained fairly static in the past eight years, but there has also been a considerable growth in the number of still smaller companies. Only a very small proportion of those would need to grow in size to replace any withdrawals from the market that might occur—for any reason—in the ranks of the main regional or local competitors. Repair and maintenance work has been a noticeable growth sector in the past decade, and this sector seems likely to remain attractive to new entrants. The potential cost of a policy of predatory pricing by the merged companies would therefore be considerable, and we do not think that the merged companies would find it profitable to engage in it.

(c) Other major scaffolding projects (projects over £50,000)

7.15. We have estimated the total market for these projects at £70 million in 1984, and the market share of the merged companies about 27 per cent. SGB

TABLE 2.14 **Sale of ladders, 1984**

	Sale of all ladders		Sale of domestic ladders		Sale of industrial ladders	
	£ million	%	£ million	%	£ million	%
SGB	6·4	16·0	2·5	14·3	3·9	17·3
BET	7·0	17·5	3·7	21·4	3·3	14·5
Other suppliers	26·6	66·5	11·3	64·3	15·3	68·2
Total	40·0	100·0	17·5	100·0	22·5	100·0

Source: MMC.

The combined share of SGB and BET was about 36 per cent in the sale of domestic ladders; 32 per cent in the sale of industrial ladders. About 25 other firms manufacture ladders in the United Kingdom; but most manufacture on a small scale for local markets. The supply of ladders, particularly of domestic and light trade aluminium ladders to the DIY multiples—who have considerable purchasing power—is at present highly competitive. We have been told that the combined market share of SGB and BET would be somewhat greater in the supply of domestic extension ladders, as opposed to steps; and in the supply of pole ladders favoured by scaffolders, where restrictions on importation of timber from which the bark has not been removed may constrain the number of suppliers. In this last case the combined share of SGB and BET was about 60 per cent, and the total value of the market about £4 million per annum.

2.32. Estimates of the market for sale of towers are given in Table 2.15.

TABLE 2.15 **Sale of towers, 1984**

	£ million	%
SGB	2·8	22·2
BET	2·2	17·5
Other suppliers	7·6	60·3
Total	12·6	100·0

Source: MMC.

SGB and BET had a combined market share in the supply of towers of about 40 per cent. Although it has been argued to us that it is not valid to differentiate towers from other access equipment, a number of companies have told us that for many uses towers are significantly more economic than alternative means of access. We have also been told of a recent increase in the number of firms manufacturing towers, so that about a dozen companies at present manufacture aluminium towers in the United Kingdom.

C. Other access equipment

Cradles

2.33. We have not been able to estimate the market for manual cradles—estimates we have seen suggest this market may be as little as £2 million per annum—but we are aware of as many as 30 suppliers within the London area alone. There are fewer suppliers of powered cradles. Estimates we have seen suggest the market for powered cradles may be between £3·4 million and £8 million per annum, with a combined market share of SGB and BET of between 28 and 51 per cent. BET previously held up to 70 per cent of the market for powered cradles, which were introduced into the United Kingdom by Stephens

and Carter, but believes this has now declined to about 20 per cent. It has also been suggested to us that other access equipment, for example mast climbers, provide comparable services, and are now competitive with cradles for the great majority of uses.

Powered access equipment

2.34. Powered access equipment includes lorry, trailer or trolley mounted machines which use electrical or hydraulic power to raise work platforms to points of work. The two principal types of powered access equipment are scissor lifts and telescopic booms. We have been told of a number of uses where powered access equipment is already preferred to traditional scaffolding. But powered access equipment continues to account for no more than 10 per cent of the total access market; and we have been told that further penetration of the access market is likely to be only gradual.

2.35. The value of the market for powered access equipment in 1984 exceeded £35 million; but the market is dominated by specialist manufacturers and suppliers, and the combined share of SGB and BET in provision of powered access equipment was below 5 per cent.

D. Non-access activities

2.36. SGB and BET are also active in the hire of forklift trucks and general plant hire. We have seen estimates of the value of the market for hire of forklift trucks of some £60 to £80 million, implying a combined share of the two companies at about 10 per cent. The combined market share of the two companies in general plant hire is estimated at significantly below 10 per cent, this market too being dominated by specialist manufacturers and suppliers.

TABLE 7.1 **United Kingdom access industry, 1984**

	Total market £m	*Combined sales of BET and SGB* £m	*Combined market share of BET and SGB* %
Overall access industry	565·3	127·0	22·5
A. *Total scaffolding market* within which:*	438·3	95·2	21·7
(a) Offshore scaffolding projects	11·2	5·2	46·4
(b) Industrial and petrochemical projects	51·5	9·3	18·1
(c) Other 'major projects' (over £50,000)	70·0	19·3	27·6
(d) Remainder of scaffolding market (projects below £50,000)	305·6	61·4	20·1
Sale of scaffold fittings (included in above)	12·2	4·0	32·8
B. *Hire and sale of ladders and towers within which:*	80·0	28·1	35·1
(a) Sale of industrial ladders	22·5	7·2	32·0
(b) Sale of domestic ladders	17·5	6·2	35·4
(c) Sale of towers	12·6	5·0	39·7
C. *Other access equipment (cradles, powered access)*	47·0	3·7	7·9

Source: MMC.

* Includes the hire and sale of scaffolding equipment, for which no separate estimates are available.

The market as a whole

7.10. In 1984 the turnover of the United Kingdom access industry as a whole (including the in-house operations of the construction companies) was some £565 million. Of this, the merged company would have had about £127 million (22·5 per cent), making it the largest company in the industry, about twice the size of the next largest company, GKN, and eight times the size of the third and fourth largest, Palmers and Deborah. However, although only a limited number of companies compete on a national scale, well over a thousand companies compete locally or regionally, some of which do so with considerable success for relatively large and complex projects. Traditional scaffolding, with a total turnover of £438 million in 1984, continues to account for over 75 per cent of the access industry; of this, the merged companies would have had 21·7 per cent (nearly the same as its share of the total access market). Their shares of different sectors of these markets vary considerably, from some 18 to 46 per cent (as shown in Table 7.1 above). Some substitution can take place between traditional scaffolding and the other forms of access mentioned in paragraph 7.6, but it appears to us that in practice such choice is still fairly limited. We have considered the possible effects of the merger on competition on a regional and local basis, and on the basis of the various individual market sectors as well as in the access market as a whole.

The scaffolding market—major projects

(*a*) *Offshore scaffolding projects*

7.11. We estimated the market for offshore projects at £11·2 million in 1984. The merged companies would have had some 46 per cent of this market. However, because of the large scale of some of these projects, market shares may be expected to vary from year to year to a greater extent than for the general run of major projects; too much reliance should not be placed on the figure for any one year.

The effects of the merger on the structure of the access industry

7.7. We deal first with some points put to us about the effects of the merger on the structure of the access industry. SGB argued that the merger would greatly increase the concentration at higher levels in the industry. It said that some 10 years ago SGB itself, though the dominant company in the industry, faced a number of substantial competitors. Acquisitions by BET and GKN had reduced that number since 1975. The turnovers of some of the other large companies were declining, and some were making losses. The merged companies would be much larger in relation to their next largest competitors than SGB was about 10 years ago. SGB said that, in the period up to 1970, it had been able to act as price leader in the scaffolding market, especially in the hire and sale of equipment; it argued that the merged companies would be able to re-establish the price leadership that it itself had once had. SGB also said that the purchasing power available to the merged companies, their ability to control the supply of scaffolding to the small projects sector, and the technical and financial resources available to support their activities in the major projects sector suggested that their market domination would increase with time.

7.8. The merged companies would indeed be much larger than any other in the access industry, with fewer large competitors than a decade ago. However, the evidence available to us shows that some of the smaller companies in the top group in 1975, such as Deborah and Cape, were able to expand their businesses more rapidly than SGB and other larger companies during much of the past decade, despite their being in the early part of the decade as small in relation to SGB as they would be in relation to the merged companies, and despite the vicissitudes of the market during that period. We note also that some of the merged companies' principal competitors are parts of large and powerful groups, such as the GKN access business within that group, and Palmers within BTR. Cape (within Charter Consolidated) and Deborah also have interests outside the access market. Such companies would have access to group finance to maintain or strengthen their positions in the market. Increased concentration at the top has manifestly not prevented a considerable growth in the number of small competitors in the industry and a general increase in competition. Nor is the access industry one in which expensive technology presents a barrier to the development of smaller companies to grow and compete with the largest. We have seen no compelling evidence of economies of scale being important in access operations themselves. We do not think, therefore, that the increase in concentration at the top level which the merger would bring about should give cause for concern about the structure of the industry and its implications for future competition. We deal later, in our consideration of the separate market sectors, with the questions whether the merged companies would be able to act as price leaders, or become dominant in the market in other ways.

The possible effects of the merger on competition in the access industry

7.9. As explained in paragraph 2.1, there are no independent statistics readily available on the size of the access market. With the assistance of BET, SGB and others we made our own estimates of the market and the market shares of the merged companies. These are summarised in Table 7.1. The estimates need to be interpreted with some caution.

CHAPTER 3

BET Public Limited Company

3.1. BET Public Limited Company (BET) provides a wide range of services to industry and to consumers in the United Kingdom and overseas. Its principal activities lie in transport, industrial services, construction, electronics and leisure, and publishing. After the SGB Group and GKN Kwikform, BET is the third largest supplier of scaffolding services to the United Kingdom market (Table 2.4). Turnover in the year ended 31 March 1985 was £1,423 million, including about £695 million overseas. Profit on ordinary activities (at historical costs and before interest and taxation) was £128 million on average capital employed in the year to 31 March 1985 of £560 million.

History and development

3.2. BET, until 1985 The British Electric Traction Company PLC, was founded in 1896 with two interests:

(*a*) passenger and freight transport; and

(*b*) electricity generation and distribution.

3.3. BET first diversified outside its early principal activities in the 1920s following the compulsory purchase of its tramway leases. BET used the compensation payments to acquire a wide range of interests including several laundry and cleaning companies, a printing and publishing business and some Scottish gas manufacturing companies (which were themselves nationalised in 1947).

3.4. Following the nationalisation of its power interests in 1947, BET moved into several further areas which still form an important part of its activities. In 1949 BET purchased Eddison Plant Ltd, a plant hire business which became the first company in BET's construction group. Substantial additions were made following the sale of BET's bus interests in 1968, most notably with the acquisition of Boulton & Paul Ltd (providing building services including scaffolding), Grayston Ltd (plant hire including scaffolding), and J D White Ltd (craneage).

3.5. As a result of these and other developments,[1] BET had become (over a period of some 50 years) a group with widely diversified interests at home and overseas. Following changes in mid-1982 in its top management, an intensive review of the BET group's operations, structure and strategy was carried out. The decisions which emerged from that review were summarised in the following way in the Chairman's statement in the Annual Report and Accounts for 1982-83:

(*a*) The diversity of BET's operations should be somewhat reduced, to focus more sharply on the development and expansion of a limited number of business sectors with good potential organic growth.

[1]For a fuller description of developments up to mid-1982 see the MMC's February 1985 report on the proposed merger between The British Electric Traction Company PLC and Initial PLC (Cmnd 9444).

(*b*) BET should, accordingly, speed up the disposal of businesses where profits are low, or are expected to become sub-standard, or which do not fit in with its long-term planning.

(*c*) BET should undertake a more active acquisition programme to enhance its growth potential.

(*d*) BET should make further sales of general investments, using the cash to invest in growth sectors of its managed businesses and to reduce borrowings.

3.6. As part of that strategy, BET decided to concentrate upon a limited number of business sectors of which it had long experience and which it consequently considered it understands well. In particular, it now focuses upon those service industries which it believes to have the greatest potential, and on correcting the imbalance of its geographical distribution. This latter policy has already involved substantial expansion overseas, particularly in the USA.

3.7. In pursuit of that strategy, BET has since 1983 made a substantial number of acquisitions and disposals. These included the acquisition in late 1985 of the crane company G W Sparrow & Sons PLC and its merger with BET's existing United Kingdom craneage interests in a new company, Grayston White and Sparrow Ltd.

3.8. The bid for SGB Group PLC is seen as a further step in the implementation of the strategy described above, BET having been active in the plant hire sector for more than 35 years and specifically in the access market for more than 15 years.

Construction interests

3.9. As a result of the reorganisations of 1983-84, BET's construction division activities are now held within two companies:

(*a*) *BET Building Services PLC*. This operates primarily in the areas of joinery, steel construction, and sale of replacement windows, and has no overlap with any part of SGB.

(*b*) *BET Plant Services PLC*. This contains all of the group's scaffolding and plant hire activities, together with the crane and forklift truck hire activities, and it is in these areas that the overlap with SGB exists.

3.10. BET's scaffolding and other access business has been built up mainly by acquisitions, rather than by organic growth. There were three origins to BET's scaffolding business:

(*a*) *Grayston Scaffolding Ltd*. The Grayston scaffolding business consisted of a number of trading companies acquired or established between 1963 and 1981 – Grayston Scaffolding Ltd, Zig Zag Scaffolds Ltd (set up in 1977), Cornwall Scaffolding Ltd (acquired 1978), Scaffolding Supplies Ltd (1979), Tasker & Booth Ltd (1979), and Industrial Scaffolding Ltd (1981).

(*b*) *Stephens and Carter Ltd*. This national hire and contract company was one element of the Boulton & Paul scaffolding business in the United Kingdom acquired in 1976. It did not make any substantial acquisitions in the period to 1984.

CHAPTER 7

Conclusions

The merger situation

7.1. Under the terms of reference we are required to investigate and report whether arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a merger situation in which section 64(1)(*b*) of the Fair Trading Act 1973 will be satisfied. Table 4.1 in paragraph 4.30 shows that SGB's assets exceed £30 million. Section 64(1)(*b*) is therefore satisfied.

7.2. By virtue of section 64(8) a merger situation qualifying for investigation exists if two or more enterprises have ceased to be distinct enterprises in the circumstances described in section 64(1). Under section 75(2) we are required to proceed in relation to a prospective merger as we could proceed if it had taken place immediately before the reference.

7.3. On 15 November 1985 BET made an offer to acquire all the SGB ordinary shares which it did not then already own. The offer lapsed when a reference was made to the Commission, but BET told us during the inquiry that it intended to acquire SGB if permitted to do so.

7.4. On 17 April 1986 the Directors of John Mowlem & Company PLC (Mowlem) and SGB announced that terms had been agreed for an offer to be made by Mowlem for the whole of the ordinary share capital, issued and to be issued, of SGB not already owned by Mowlem, and that the Board of SGB had decided that it would recommend acceptance of the offer to its shareholders. BET told us that, despite this offer, it remained interested in acquiring SGB if permitted to do so. Mowlem's offer was made on 28 April 1986.

7.5. We conclude that a merger situation qualifying for investigation will be created if the arrangements in contemplation for the acquisition of the remainder of the ordinary shares of SGB by BET are carried into effect.

The public interest

7.6. The parts of BET's and SGB's businesses in the United Kingdom in which we have considered whether issues of public interest might arise from the proposed merger all fall within the access industry, namely scaffolding, ladders, towers, cradles and powered access equipment. There are also overlaps in the businesses of both companies in the hire of mechanical plant and equipment, and of forklift trucks. We have decided that neither of these overlaps raises issues of public interest, either because the scale of business on one side is minimal, or because the merger would still leave the merged companies with a very small share of the relevant market. There are no overlaps in any other parts of BET's or SGB's businesses in the United Kingdom. We have also taken into account the activities of BET and SGB abroad when it has seemed necessary for us to do so.

have a better opportunity to enter the United Kingdom market; at present imports were negligible. One supplier also told us that SGB had done much, through research and development, to introduce new high productivity products for use on construction sites, some of which had been successfully marketed overseas. If SGB was absorbed by a large conglomerate this supplier expected that some of that drive would be lost.

Suppliers of scaffolding tubes

6.43. We wrote to nine major suppliers to both companies of steel and aluminium scaffolding tubes. Four wished to comment on the merger. Two felt that there would be no adverse results, one saying that it had every reason to hope that, should the merger take place, its sales to the enlarged group would be of a similar volume to that presently being supplied to the two individual companies. A third supplier said that, whilst it was not aware of any benefits or identifiable adverse effects to the public interest, it did foresee a potential for rationalisation by the merged company which could lead to a reduction in choice for the consumer. The fourth supplier, British Steel Corporation, was concerned about the effect of the merger. It felt that it would stand to lose SGB's substantial tonnage for steel tubing, as BET would be more likely to import tubing dumped from Eastern Europe, taking short-term advantage of low uneconomic prices, to the detriment of the United Kingdom tube industry. Such a loss of output, we were told, could put at risk jobs in two areas of already high unemployment.

(c) *Aberdeen Scaffolding Ltd.* This company was acquired by BET in 1976, since when it has continued to be run as a separate company. It is a general access company with a specialist division for offshore work.

3.11. In 1983 the various interests in scaffolding and access equipment held through Boulton & Paul and Grayston were reorganised under the common management of a new intermediate holding company, BET Access PLC. UBM's scaffolding division was acquired in October 1984 and has been integrated into the management structure under BET Access, as has Spritebrand Ltd acquired in 1985. These companies now form part of the group headed by BET Plant Services PLC.

3.12. The other main divisions in the United Kingdom of BET Plant Services PLC are Eddison Plant Ltd (general construction plant and forklift trucks) and Grayston White and Sparrow Ltd (cranes).

3.13. A corporate structure chart showing BET Plant Services PLC's principal companies in the United Kingdom and overseas is at Appendix 3.1.

Structure and management

3.14. BET's activities are now organised in five divisions. These had a combined turnover of some £1,423 million in the year ended 31 March 1985, including about £695 million overseas. Over 45,000 persons were employed, almost half of this number overseas mostly in transport. All the other four divisions are predominantly home-based.

3.15. The relative importance of each division is indicated by Table 3.1, which shows the proportion of turnover, pre-tax profit on ordinary activities (ie disregarding return on general investments), and employees for each division.

TABLE 3.1 **BET's divisions, as at 31 March 1985**

per cent

Division	*Turnover*	*Pre-tax profit**	*Employees UK†*	*Employees All†*
Transport	36·9	27·9	10·6	51·5
Industrial services	13·8	19·6	15·7	8·4
Construction	16·3	18·7	36·0	17·3
Electronics & leisure	22·4	20·7	25·6	15·9
Publishing	10·6	12·5	11·8	6·8

Source: BET

* The balance of 0·6 per cent comprises other income and costs.
† The balances of 0·3 per cent and 0·1 per cent respectively consist of Head Office employees.

3.16. BET at present has 13 directors of whom seven are executive directors. All the executive directors, except the Finance Director, are chairmen of and are responsible for major subsidiary companies. Supporting the executive directors are a further eight executives based at Head Office, with responsibility either for the operations of smaller subsidiary companies or for central management functions. In all, there are approximately 100 employees at Head Office, compared with a total group workforce now around 45,000.

3.17. Although the BET executive meets regularly under the chairmanship of the Managing Director, it is essentially an advisory management group. The executive directors have direct responsibility through the Managing Director to BET's Board for the operations of their particular division.

3.18. The Boards of BET's principal subsidiaries generally consist of:

(*a*) two or three BET executives, one of whom will be the Chairman (and, sometimes, Chief Executive);

(*b*) a Chief Executive, normally designated Managing Director (who has day-to-day responsibility for the conduct of the subsidiary's operations), and other executives of the subsidiary; and

(*c*) in most cases, one or two non-executive directors from outside BET.

3.19. Consistent with the strategy outlined in paragraph 3.5, there is now a greater degree of intervention by BET's executives in the subsidiaries' operations than was the case until 1982. Nonetheless, local executives retain substantial responsibility for, and discretion in the management of, their own companies.

3.20. The more formal elements of BET's central control are to be found in:

(*a*) The preparation of annual plans. In the past, the initiative in the planning process lay very much with the operating subsidiaries: apart from the subsidiary's chairman, BET's central executives intervened very little in the preparation of plans. Now BET's executives have a clearer idea of their objectives for the group, and seek to ensure that those objectives are reflected in the plans of the operating subsidiaries.

(*b*) Monthly reports based on a model.

(*c*) The recently introduced group treasury function, under which the cash requirements of each subsidiary are monitored centrally in order to secure the best possible use of cash resources.

3.21. In addition to the more formal processes described above there is a significant degree of contact between Head Office and the local operating subsidiaries, particularly between the Chairman and Chief Executive of each subsidiary. The degree of contact will vary from case to case. The BET executives will take a closer interest in the activities of a subsidiary which is in difficulties, or which is in a phase of rapid expansion or change.

Activities of BET Plant Services

3.22. Prior to 1982, the access companies were run as autonomous units with relatively little central control and no coherent direction. That changed with the revision of the group's strategy some four years ago to concentrate upon a limited number of business sectors. The previous mode of operation was clearly inconsistent with that strategy and, to bring it into line, all BET's plant services functions were brought together under BET Plant Services PLC. The access companies were all grouped under BET Access PLC, a subsidiary of BET Plant Services PLC. It is BET Plant Services PLC's function to act as the intermediate holding company for the companies in the plant services division. BET Access PLC is effectively the operating division responsible for all non-mechanical access activities.

Suppliers of ladders and towers

6.40. The Commission took evidence from six suppliers of ladders and towers. Two of the companies said that the merger would not operate against the public interest. One of these suppliers said that the merger would not lessen the choice of goods available to the customer, or have any effect on the price, quality or availability of products in the access equipment market. A third said that it was wholly in favour of the merger and felt that there would be considerable benefit to the public interest as a result. This would come from rationalisation within the merged group which would leave significant room for improving pricing in the ladder supply and hiring industries and would in turn increase competitiveness within the industry. It was also this supplier's considered view that large well-run units within the industry would help to accelerate the decline of the fringe 'cowboy' element.

6.41. The other three companies all expressed concern about the proposed merger. They said that a merger between BET's subsidiary, Stephens and Carter, and SGB's subsidiary W C Youngman Ltd, would lead to a single supplier holding more than a 50 per cent share of the market for aluminium access products, they said that such a dominant position would enable the merged company to operate predatory pricing policies which would eventually force some of the smaller suppliers from the market. These companies all felt that the merger would be against the public interest, as it would lead to both a reduction in choice and to higher prices for customers. Two of these companies also claimed that since the announcement of the proposed merger Youngman and Stephens and Carter had been engaged in a price war which was having detrimental effects on the other ladder companies. One company also expressed concern about the supply of wooden ladders and pole ladders in particular, saying that the merged company would probably have two-thirds of the market for pole ladders.

Suppliers of scaffolding equipment

6.42. We received comments from three suppliers of scaffolding fittings and one supplier of scaffolding systems. All opposed the merger. One supplier said that after careful consideration it was of the opinion that the proposed merger would not be in the public interest, but did not expand on this view. The other three suppliers told us that a large percentage (in one case 85 per cent) of their business was with SGB. They all expressed concern that a merger between BET and SGB would concentrate a dominant share of both the scaffolding contract and supplies markets into the hands of one company. Competition would be severely limited in both markets and, depending on BET's chosen policy following a merger, they as suppliers could be considerably affected. If BET decided to rationalise its products and use only BET companies to manufacture them, independent companies would be extremely unlikely to be able to make up such a loss of orders from elsewhere. BET would also have the purchasing power to negotiate preferential prices at which smaller companies could not possibly supply. The end effect would be a reduction in the choice of goods available to the customer, higher prices, and the possible withdrawal of these suppliers from the markets, with the subsequent laying off of their workforce. Two of the suppliers thought a possible consequence would be that a number of European competitors would, by offering alternative choices,

larger companies such as BET and SGB. The area where a merged BET/SGB group might possibly think that it could influence the market was in the supply of scaffolding fittings and materials. However, there were a number of alternative British-based suppliers from which Deborah could obtain these goods on terms at least as good as those it presently obtained from either BET or SGB. The proposed merger would therefore have little effect on this sector either.

6.36. *Cape Scaffolding Ltd (Cape),* part of the Charter Consolidated Group and associated with Cape Asbestos, told us that, with the possible exception of certain access equipment, it saw no reason why a merger would be detrimental to the scaffolding industry. As the scaffolding industry was extremely fragmented with numerous small local/medium-sized companies able to compete with the larger companies on both price and service, it did not see that a combined group would create anything approaching a monopoly within the industry.

Other scaffolding companies

6.37. The Commission took evidence from 17 other scaffolding companies, one of which was not a member of the National Association of Scaffolding Contractors (NASC).

6.38. Only two of the companies said that the proposed merger would not have any detrimental effects. One of these thought that scaffolding companies would benefit from the loss of competition, and the general public would benefit from an increase in choice, as the merged company closed depots and redundant depot managers set up their own companies. Some of the rest expressed a general fear that the combined BET/SGB group would by its sheer size be able to dominate various sectors of the market. Most agreed that the merger would not affect competition for smaller contracts, although some felt that there would be very limited competition for contracts over £50,000. One firm thought that the merged company would push up prices, to the detriment of the consumer, whereas four other firms feared the combined group would try to undercut its competitors and force them out of business, then raise prices at a later date. Two firms suggested that there might be predatory pricing in selected areas with other regions cross-subsidising them. Six firms felt that the combined company could affect the supply of equipment, and three singled out fittings as a particular area of concern. Some of the firms drew our attention to the fact that in the past SGB had refused to hire equipment to other scaffolding companies and this might be a course followed by the merged company.

6.39. Five of the companies were also concerned that the NASC itself would suffer if the two companies came together, as jointly they would be unlikely to release as many executives to help with its industry-wide work. Both companies played important roles on committee and other work, which benefitted the whole industry. Smaller companies were less able to spare the manpower to carry out such necessary work. Two companies had a high regard for SGB's training and safety record, and hoped that such standards would be maintained in a merged company.

3.23. The operating subsidiaries of BET Access PLC are shown in the corporate structure chart at Appendix 3.1. Their principal activities comprise contract scaffolding, the hire and sale of scaffolding and other access equipment, the manufacture of ladders for the BET companies' own use and for hire and sale, and the manufacture of scaffolding fittings. Hire and sale is undertaken through a nationwide chain of some 47 depots. At 31 March 1985 the United Kingdom companies in BET Access PLC had 2,643 employees.

3.24. The turnover and estimated market shares in 1984 of BET's United Kingdom access industry activities are shown in the tables in Chapter 2.

3.25. Since the formation of BET Plant Services and BET Access the number of companies within the BET group offering scaffolding and other access services has continued to grow. To avoid duplication it was decided with effect from 1 April 1986 to restructure the BET Access PLC trading company activities. All hire and sale of access equipment is now carried out under the name of Stephens and Carter, all suspended platform business under the Stephens and Carter SP name, and all scaffold contracting under the name Grayston UBM Scaffolding. Aberdeen Scaffolding Ltd (which provides specialist access services to offshore oil platforms) and Industrial Scaffolding Ltd (which handles the BET other major project contracts) are not affected by these changes. Clima Holdings Ltd now acts as umbrella for all the manufacturing companies.

BET financial information

3.26. BET makes up its accounts to 31 March each year using the historical cost convention.[1] Table 3.3 summarises its group balance sheets at 31 March for each of the last five years.

TABLE 3.3 **BET Public Limited Company: summarised group balance sheets**

£ million

	31 March				
	1981	*1982*	*1983*	*1984*	*1985*
Tangible fixed assets and investments	447·5	502·3	582·4	600·8	469·8
Current assets less liabilities other than borrowings	27·8	35·3	0·9	(33·2)	82·3
Capital employed	475·3	537·6	583·3	567·6	552·1
Borrowings*	(77·8)	(123·5)	(156·9)	(86·8)	(162·4)
Net assets	397·5	414·1	426·4	480·8	389·7
Share capital and reserves	327·3	342·0	379·0	422·2	403·5
Minority interests	73·5	75·1	81·7	31·8	30·3
Intangible assets	(46·4)	(50·1)	(78·9)	(43·7)	(84·2)
	354·4	367·0	381·8	410·3	349·6
Deferred taxation†	43·1	47·1	44·6	70·5	40·1
Equity	397·5	414·1	426·4	480·8	389·7
Gross debt/equity ratio (%)	19·6	30·0	36·8	18·1	41·7

Source: BET.

* Borrowings consist of loan capital, other loans and overdrafts less cash and short-term investments.

† The increase in deferred taxation in 1984 was largely attributable to the corporation tax changes contained in the Finance Act 1984.

[1]BET discontinued publishing current cost accounts after 1982–83.

3.27. Table 3.4 summarises BET's group profit and loss accounts for each of the last five years.

TABLE 3.4 **BET Public Limited Company: summarised group profit and loss accounts**

£ million

	1981	*1982*	*31 March 1983*	*1984*	*1985*
Turnover:					
Group	812·2	883·6	1,002·3	1,074·4	1,197·6
Share of associated companies	127·4	150·3	175·8	194·3	225·3
	939·6	1,033·9	1,178·1	1,268·7	1,422·9
Operating profit:					
Group	64·1	60·7	68·3	82·3	97·7
Share of associated companies	10·8	16·5	17·6	20·3	20·0
	74·9	77·2	85·9	102·6	117·7
Investment income	10·2	8·9	7·6	7·4	10·0
Profit before interest payable	85·1	86·1	93·5	110·0	127·7
Interest payable	(24·3)	(19·4)	(23·3)	(24·3)	(24·2)
Profit before taxation	60·8	66·7	70·2	85·7	103·5
Taxation	(13·1)	(31·6)	(19·2)	(24·0)	(35·2)
Profit after taxation	47·7	35·1	51·0	61·7	68·3
Minority interests	(8·5)	(8·7)	(10·0)	(5·3)	(5·2)
Extraordinary items*	(1·0)	(1·6)	(5·2)	(38·0)	(9·1)
Profit attributable to shareholders	38·2	24·8	35·8	18·4	54·0
Dividends	(11·5)	(12·2)	(15·2)	(24·6)	(29·2)
Retained profit	26·7	12·6	20·6	(6·2)	24·8
Earnings per deferred ordinary share before extraordinary items (pence)	26·2	17·4	27·1	28·9	30·7

Source: BET.

* Extraordinary items in 1984 include £37.6 million for deferred taxation as a result of the corporation tax changes contained in the Finance Act 1984.

3.28. Table 3.5 shows BET's returns on average capital employed and on net assets for each of the last five years.

TABLE 3.5 **BET Public Limited Company: returns on average capital employed and net assets**

	1981	*1982*	*1983*	*1984*	*1985*
Average capital employed (£m)	464·8	506·4	560·5	575·4	559·9
Profit before interest payable and tax (£m)	85·1	86·1	93·5	110·0	127·7
Return on average capital employed (%)	18·3	17·0	16·7	19·1	22·8
Average net assets (£m)	384·4	405·8	420·3	453·6	435·3
Profit before tax (£m)	60·8	66·7	70·2	85·7	103·5
Return on average net assets (%)	15·8	16·4	16·7	18·9	23·8

Source: MMC.

BET Plant Services financial information

3.29. BET Plant Services makes up its accounts to 31 March each year. Table 3.6 summarises its group historical cost balance sheets at 31 March 1984 and 1985.

and to provide definite advantages to customers. In the medium to long term though, dependent upon what action BET might take, other companies in the market could be affected and placed at a disadvantage. If BET chose to raise prices there was sufficient competition in the market to ensure that customers would not be adversely affected. However, if BET chose to reduce its prices, in an effort to drive competitors from the market, it could well succeed since its resources would be considerably greater than other companies in the market, and would enable it to withstand diminished returns for a longer period. Once a company had been driven out of that market the cost of re-entry, into the top end of the market, when prices eventually rose again would be prohibitively high. In the case of small contracts, as major contractors were already at a cost disadvantage in competing with companies with low overheads, the merger would have little effect on this market. As to *hire of scaffolding or general plant,* the merger would not affect the price, availability or choice of goods in these markets, competition being sufficiently keen. As regards *supplies of scaffolding and timber plant,* Palmers said that, as the majority of its scaffolding plant, with the exception of system scaffolding, was supplied direct from the manufacturers it did not believe the proposed merger would have a significant effect on this part of its business. It was, however, concerned for the supply of timber products following a merger, particularly that of timber ladders. There were only a few timber ladder suppliers in the United Kingdom, one being a BET company and another an SGB company. The merger would give the combined company a large share of the market, and supplies could be restricted. Palmers would be happier if BET disposed of any overlapping interests it might acquire through the merger.

6.33. *Deborah Services PLC (Deborah),* an independent quoted company, told us that its Scaffolding Division included contract work (concentrated mainly in the North of England and Scotland), and the hire and sale of equipment (including powered access equipment). Though its network of contract depots did not cover the whole country, its style of contract management nevertheless allowed it to compete on a national basis, with both BET and SGB amongst its main competitors, by establishing a depot and an associated workforce wherever needed to support a contract. In this connection it tended to concentrate on the larger-sized contracts, including industrial, petrochemical and offshore work, preferably of several years' duration. It did not compete for formwork, but did do a very limited amount of support work.

6.34. Deborah felt that the proposed merger would have little effect on its own business, or on the scaffolding market as a whole. Fragmentation and competition within the industry made it unlikely that a combined group could act as a price leader within any section of the market. Equally it doubted whether sufficient economies would result from the merger to allow a combined group to indulge in price-cutting in an attempt to reduce competition, particularly from medium-sized companies. In the past BET had taken over other scaffolding companies and had not become, in Deborah's view, any more competitive; certainly Deborah had been able to maintain its share of business.

6.35. For the larger contracts there would still be between four and eight companies tendering, and the merger would therefore make little difference. With small contracts there was intense competition and an increasing number of competitors, many of whom Deborah felt were not in competition with the

6.28. GKN considered there were virtually no barriers to the entry of a small company into the large contract market, though the capital requirement for the purchase of sufficient stock would admittedly be high. It knew of several quite significant companies which had grown purely organically, and which in a comparatively short time were capable of tendering for the largest size contracts. Certainly GKN felt that there were no economies of scale or price advantage that it or other large companies could exercise to stop this happening; any attempt at price leadership was just not a feasible proposition and could not be applied to advantage by the merged company. As for smaller contracts, since at least 900 firms operated in this market, free competition was ensured. Similarly GKN could see no adverse effects resulting from the merger in any other parts of the access markets in which a combined BET/SGB group would have a substantial share.

6.29. *Palmers Scaffolding Limited (Palmers),* a member of the BTR group, was long-established in the access industry. Following reorganisations in recent years, it now operated selectively in contract scaffolding, concentrating on large projects in which it was backed up by a medium-sized network of depots which were also active in the hire and sale of scaffolding to other contractors.

6.30. Palmers told us that the scaffolding contract market was made up of around 20 major competitors with the resources and technical ability to undertake both large and specialised contracts (eg those for power stations, oil refineries and chemical works), and a dramatically rising number of smaller contractors which it currently estimated at over 1,000. Of the top companies, some seven to nine were capable of handling multi-million pound scaffolding contracts, though only a few could offer a nationwide service, the other companies being strong in particular regions. Though not included within its estimate, there was an additional number of smaller companies which could nevertheless compete for large contracts where the requirement called for straightforward access work.

6.31. There was considerable ease of entry into this market, even for a company lacking the necessary technical expertise. Such a company could hire a consultant engineer, often trained by and an ex-employee of the larger companies, for technical advice and thereby tender for the more complex contracts. Indeed, in some cases a customer would get a large scaffolding company to carry out the engineering and design work and supply the information with its quotation; it would then supply this information to a smaller company, operating with lower overheads, in order to obtain a cheaper price for the work. Competition in the larger projects market was becoming increasingly intense, first from small companies that had grown and now competed for large contracts, and second from the growing number of in-house scaffolding divisions set up by the larger construction companies (eg MacAlpine, Laing) which competed with the established scaffolding companies for that company's work, and which in certain circumstances, depending on quantity, geography or intricacy of scaffolding, were preferred by the parent company.

6.32. As to the effect of the merger on different sectors of the scaffolding market, Palmers considered that, as regards *contract scaffolding,* the merger would, in the short term, permit the new grouping to effect economies of scale

TABLE 3.6 **BET Plant Services PLC: summarised balance sheets**

£ million

	31 March 1984	1985
Fixed assets	44·5	67·1
Current assets less liabilities other than borrowings	17·2	21·9
Capital employed	61·7	89·0
Borrowings*	(22·6)	(27·0)
Net assets	39·1	62·0
Share capital and reserves	29·2	46·2
Deferred taxation	9·9	15·8
	39·1	62·0
Debt/equity ratio (%)	57·8	43·5

Source: BET.

* Borrowings consist of loans and overdrafts less cash on hand.

3.30. Table 3.7 summarises BET Plant Services group profit and loss accounts for 1984 and 1985.

TABLE 3.7 **BET Plant Services PLC: summarised group profit and loss accounts**

£ million

	31 March 1984	1985
Turnover	70·7	100·0
Cost of sales	(47·2)	(68·7)
Gross profit	23·5	31·3
Other operating expenses	(19·0)	(23·3)
Operating profit	4·5	8·0
Investment income	—	0·4
Profit before interest payable	4·5	8·4
Interest payable	(2·2)	(3·1)
Profit before tax	2·3	5·3
Tax	0·6	(2·7)
Profit after tax	2·9	2·6
Minority interests	—	—
Extraordinary items	(7·9)	(3·3)
Profit attributable to shareholders	(5·0)	(0·7)
Dividends	(0·3)	(0·9)
Loss for year	(5·3)	(1·6)
Earnings per ordinary stock unit (pence)	NIL	NIL

Source: BET.

3.31. Table 3.8 shows BET Plant Services returns on average capital employed and on net assets for 1984 and 1985.

TABLE 3.8 **BET Plant Services PLC: return on average capital employed and net assets**

	1984	*1985*
Average capital employed (£m)	50·8	75·3
Profit before interest payable and tax (£m)	4·5	8·4
Return on capital employed (%)	8·9	11·2
Average net assets (£m)	30·4	50·6
Profit before tax (£m)	2·3	5·3
Return on average net assets (%)	7·6	10·5

Source: MMC.

BET Access financial information

3.32. Table 3.9 shows the turnover and profits of BET Access United Kingdom companies in the years 1983 to 1985.

TABLE 3.9 **BET Access PLC: turnover and profits of United Kingdom companies**

			£ million
		Year to 31 March	
	1983	*1984*	*1985*
Turnover	44·6	49·5	61·3
Profit before interest and tax	0·9	3·4	3·6

Source: BET.

Notes:
1. Profits are shown after management charges but before interest.
2. For names of companies whose accounts are included in this table see Appendix 3.1.

3.33. At 31 March 1985 BET's issued share capital consisted of £713,000 of 6 per cent Cumulative Participating Preference Shares of £1 each, £1,326,000 of 8 per cent Non-Cumulative Preferred Ordinary Shares of £1 each, and £52·0 million of Deferred Ordinary Shares of 25p each. There were £7·0 million of Deferred Ordinary Share options outstanding. BET's most recent annual report stated that The Border and Southern Shareholders Trust PLC was interested in 10·93 per cent of the 8 per cent Non-Cumulative Preferred Ordinary Shares and 12·49 per cent of the 6 per cent Cumulative Participating Preference Shares. So far as was known, there was no other interest in the company's shares representing 5 per cent or more of the total votes exercised by any class of share.

6.23. Three building companies took a neutral view of the merger. They felt that, as sufficient competition existed in the scaffolding market, no adverse effects would result from the merger, provided BET maintained a commitment to offer a reliable service at competitive prices.

6.24. Two customers thought that sufficient competition would still exist in all sectors of the market. They felt that goods and services available to customers would be increased, and that the merger would lead to efficiencies which could ultimately make for more economic tendering. Another customer, whilst opposed to the merger overall, felt that possible benefits from the merger could be a reduction in unit manufacturing costs if standardisation of components was achieved, and from the formation of an organisation which might be able to compete more effectively in international markets.

Competitor suppliers of scaffolding services

6.25. We sought information and views from the four other large companies which, together with SGB and BET, constitute the 'Big Six' of the industry, viz GKN Kwikform, Palmers, Deborah and Cape, and held hearings with the first three.

6.26. *GKN Kwikform Limited (GKN)* is owned 60 per cent by Guest, Keen and Nettlefold PLC and 40 per cent by the Costain Group PLC, with which it has an arm's length trading relationship. After SGB it is the second largest company in the United Kingdom scaffolding industry market (see Table 2.4), but a more or less equal third in the access industry as a whole. GKN told us that it undertook both contract scaffolding on a national scale, particularly for large projects (which accounted for about two-thirds of its total turnover), and the supply of scaffolding and other access equipment through a nationwide chain of about 55 depots. Its system scaffolding, Kwikstage, was a recognised industry leader.

6.27. Whilst a merged BET and SGB would constitute the biggest firm in the market, and about double the size of GKN, the company believed that would have no significant effect on GKN or on what GKN saw as a highly competitive market. There were about 200 firms capable of undertaking large contracts, ie those in excess of £50,000. Though only a few operated nationally, in every reasonably sized centre of population there were local operators capable, in their area, of taking on most types of scaffolding work. This was certainly true of all the towns where GKN had a depot. GKN felt that sufficient competition existed also in the more specialised large contracts. For industrial maintenance work there were about 20 to 25 firms who specialised in this field. For support work, eg motorway bridges, competition was also provided by the contractors themselves, a large proportion of the work being done in-house by the contractors who did the design work themselves and completed the job using hired equipment and sub-contracted labour. Where a design capability was a requirement for a contract there were a number of firms with this facility in-house, while smaller companies without this facility could hire the services of the considerable number of outside specialists and consultants. However, where a considerable amount of design work was required, customers did tend to prefer to use one of the larger well-known companies with its own in-house facility, rather than a smaller contractor who bought-in design work.

scaffolding hire market. As there were at present very large amounts of equipment in the market, it would be extremely difficult for any one company to have sufficient control of the market to act as a price leader.

6.19. *Cumbrian Industrials Ltd (Cumbrian)* sub-contracted 60 per cent of its scaffolding, with the remainder of its work, mainly the smaller contracts, being carried out by its own in-house scaffolders. It also had its own design capability and could do its own formwork and support work if required.

6.20. Cumbrian felt that the merger would not be against the public interest. In the parts of the country in which it operated there would still be sufficient choice, for all types of scaffolding services, to satisfy its needs. Even if it did feel that its choice was restricted, or the price too high for a particular job, it had the capacity to do the work in-house. Furthermore, the merger could provide actual benefits to the consumer by further improving the merger company's services and through more competitive pricing. The merged company would be able through rationalisation to reduce its overheads and depot costs, and so increase its efficiency. Some of these benefits could be passed to the customer through its increased competitiveness with other scaffolding contractors, and a possible all round lowering of prices.

Other customers

6.21. We wrote also to 38 other users of BET's or SGB's scaffolding services, mainly building companies. We received replies from 35 companies, of whom five did not wish to comment. Twenty-five out of the 30 users who replied opposed the merger, for a variety of reasons. Over three-quarters felt that competition, and thereby choice, would be restricted to such an extent that they would be unable in certain instances to obtain competitive quotes and prices for their scaffolding contract work. Several also felt that the same would apply to their purchase of scaffolding supplies. Choice would be further limited if the merged company were to rationalise its depot network, or to engage in predatory pricing directed at the local competition. We were told that, as BET had already reduced the level of competition in the industry through its earlier acquisitions, any further concentration which would leave only one other national competitor would be unacceptable.

6.22. Areas singled out as of particular concern were large contracts, or those requiring specialised design work. Several customers said that at present they had only a choice of three or four companies with the design ability, trained labour force, expert supervision and financial substance to undertake these types of work; a reduction of even one from this number would render competition virtually non-existent, and could lead to higher prices and a deterioration in service. Four of these customers also felt that certain scaffolding supplies were becoming concentrated in too few hands and the merger would increase such a concentration. This could lead, in the long term, to price rises, and to a reduction in choice and availability. Two customers singled out the manufacture of aluminium towers and ladders as being particularly at risk. Five customers also spoke highly of SGB's standards of training and safety and of its input into research and development from which the whole industry benefitted. The upkeep of such standards depended on competition, and they expressed apprehension that these might suffer from SGB's absorption in the BET group.

CHAPTER 4

SGB Group PLC

4.1. SGB Group PLC (SGB) operates through a number of trading companies, including Scaffolding (Great Britain) Limited, the largest scaffolding company in the United Kingdom. Its main activities are the provision of a complete scaffolding service for access and support including ladders and towers; the supply of formwork and groundwork products, mechanical plant and other building equipment; the hiring of small plant, power tools and equipment; the cleaning and restoration of stonework, and woodworm and dry rot control. Turnover in the year to 28 September 1985 was £189 million (of which £47 million was earned overseas). Profit on ordinary activities (at historical costs and before interest and taxation) was £18 million on average capital employed in the year to 28 September 1985 of £115 million.

History and development

4.2. The Tubular Scaffolding Company Ltd was incorporated in 1920 to acquire the plant and material used in the scaffolding business of the Patent Rapid Scaffolding Tie Co Ltd, and to acquire and develop a patent for a coupler to join metal tubes together to form tubular scaffolding. The company was floated on the Stock Exchange in 1922 as Scaffolding (Great Britain) Ltd.

4.3. Until the early 1960s the company concentrated almost exclusively on building up its tubular scaffolding business, so that by 1960 it was the largest scaffolding company in the United Kingdom and, in addition to supplying the full range of scaffolding requirements, also supplied a large range of building equipment for sale or hire.

4.4. 1964 saw the start of a period of diversification and expansion. SGB opened its first equipment hire shop in 1965, and in 1978 all SGB's hire shops and related activities were brought together to form HSS Hire Group Ltd.

4.5. In 1965 SGB acquired a minority interest in Boulton Scaffolding Ltd (Boulton), one of SGB's principal suppliers of scaffold fittings and other scaffolding products. Boulton became a wholly-owned subsidiary of SGB in 1980.

4.6. In the late 1960s SGB commenced a mechanical plant hire business, hiring lorry-mounted hydraulic work platforms and small plant including generators and compressors. The acquisition in 1974 of Contractors' Services Group Ltd, which hired a comprehensive range of plant from depots throughout the United Kingdom, created a major national plant hire company. SGB's plant hire activities were strengthened by their reorganisation in 1978 to form CSG Plant Hire Ltd, and by subsequent acquisitions of companies specialising in heavy earth-moving equipment and in the supply of mechanical hoists for goods and passengers.

4.7. W C Youngman Ltd was acquired by SGB in 1969. Its activities include the manufacture, hire and sale of ladders, steps, trestles and aluminium alloy access towers, the distribution of space heaters and the manufacture and supply of mobile accommodation. SGB's existing ladder manufacturing activities were transferred to it.

4.8. In late 1969 SGB acquired Peter Cox Ltd, a company which specialised in the restoration of historic buildings and monuments, stone cleaning and damp-proofing, and in 1974 the Hardun Group of companies, manufacturers of timber building systems and temporary and mobile site accommodation, and vendors of an extensive range of small tools, protective clothing and site equipment.

4.9. SGB's first venture overseas was to set up Scaffolding Ltd in Eire in 1933, and in 1948 it set up SGB Building Equipment (Pty) Ltd in South Africa. Since 1962 SGB has sought to expand its overseas activities. The most important foreign subsidiary is Beleggingsmaatschappij Bouwmaterieel Europa BV (BBE BV), the holding company for SGB's interests in Holland, Germany and France. BBE BV's activities include contract scaffolding, the hire and sale of building equipment and powered access equipment, and the manufacture of hydraulic, electric and aluminium access equipment. From 1976 to 1983 SGB set up joint ventures throughout the Middle East and achieved overall market leadership for its products and services with highly profitable returns until the rapid decline in Middle Eastern construction activity from 1981.

4.10. Early in 1985, the Board of SGB embarked upon a critical appraisal of all SGB's trading activities. The object of the review was to concentrate financial and management resources on SGB's core businesses, and to seek to dispose of businesses which were peripheral or produced an inadequate return on capital or management resources.

4.11. The core businesses identified by the review, and their strengths as seen by the SGB Board, were:

(*a*) *Scaffolding (Great Britain) Ltd:* the leading United Kingdom scaffolding and formwork supplier;

(*b*) *HSS Hire Group Ltd:* the market leader in the equipment hire shop business;

(*c*) *Youngman Group Ltd:* a market leader in the manufacture of ladders and towers and portable accommodation;

(*d*) *Peter Cox Ltd:* an expanding specialist building maintenance contractor; and

(*e*) *BEE BV:* a major European scaffolding and formwork company concentrating on the Dutch and French markets.

4.12. The steps taken by SGB in furtherance of this policy in 1985 included:

(*a*) the disposal of its loss-making Australian subsidiary, and the closure of small operations in Singapore, Norway and Belgium;

(*b*) the acquisition of Stonewest Ltd, a specialist masonry and building restoration company based in Bristol;

important that work be continued on the drafting of Standards and Codes, particularly European ones, so that the United Kingdom was not to be disadvantaged either technically or commercially.

6.14. *A medium-sized building and construction company* told us that 99 per cent of its scaffolding requirements were sub-let to specialist scaffolding contractors such as BET and SGB. Even if there was to be less competition, it would be unlikely to increase its in-house stock because of the large investment required for such purpose.

6.15. Though the construction industry had long been very competitive, there was nevertheless a vital need for both scaffolding sub-contractors and suppliers to compete in a sensible way to ensure that both the main contractor and the client got value for money. Choice was particularly important at the more technical level where high buildings, heavy loading or complex temporary supports were needed. The construction industry would not welcome a merger which would allow one company (BET) to control, in this company's estimation, over 40 per cent of the major scaffolding work, particularly as only four or five companies actually operated at this level. It was unlikely that any of the numerous medium-sized scaffolding firms would be able to grow to join the 'Big Six' and thereby increase the competition. Considerable investment was needed to buy the necessary stock; hiring additional stock would put a company at a competitive cost disadvantage.

6.16. The present large number of BET and SGB depots was good for competition and service. Closures or amalgamations following a merger would lead to price rises and to fluctuations, which would have to be passed on to the customer. The proposed merger might stifle innovation in the scaffolding industry in the future. New products were somewhat rare, and the introduction by SGB of its Cuplok system was a major step forward, particularly where non-scaffolding operatives were working.

6.17. *Tarmac Construction Limited (Tarmac)* told us that a substantial part of its scaffolding requirements were met by its own in-house scaffolding unit as being cheaper than using outside contractors. The unit was capable of taking on any size of contract that Tarmac chose, including full design work. When selecting an outside tender Tarmac went to four or five scaffolders. These usually included GKN, SGB, a BET company, and a prominent local scaffolder. Though some of the locals were capable of design work themselves, Tarmac felt more comfortable, when this was required, in using one of the major national scaffolding companies. In certain cases it had carried out the design work, and then passed this information on to sub-contractors, which did not have this capability themselves.

6.18. Tarmac did not believe that the proposed merger would necessarily be against the public interest since, in its view, there would still be reasonable competition from a number of larger companies, together with a large number of local small-scale scaffolding suppliers. Though the merger would reduce the number of major suppliers, it would nevertheless be unlikely to make a fundamental difference in the market place. If Tarmac, and presumably other major contractors, were to feel threatened by any further narrowing of supply, they would still have the ability to buy more scaffolding and increase the use of their own in-house operations. Similarly the merger would not affect the

prepared consistently to provide a pre-tender estimate as a free service. If this service were not available, and they feared that BET would reduce it, medium-sized contractors would no longer be able to tender for the largest construction contracts. The larger builders would be able to do so, having this design and pricing capability in-house. Gleeson also valued the personal relationship that it had with SGB, particularly the ability to communicate directly with SGB's principals if a problem needed to be immediately resolved; such a facility might not continue within a large conglomerate. Finally Gleeson envisaged a number of other adverse effects resulting from the merger, mainly on prices (which would rise if there was a reduction in competition), research and development (where SGB played a large part in the development of new and improved scaffolding equipment and formwork), and depots (which would close as a result of rationalisation, thereby reducing the degree of competition in certain areas). For all these reasons Gleeson considered the merger to be against the public interest.

6.11. *John Laing Construction Limited (Laing)* told us that, though most of its scaffolding requirements were provided by independent outside contractors, it also had its recently formed in-house scaffolding sub-contracting operation, EPL. This used Laing's stock of scaffolding materials, and traded at arm's length from its parent company. At present EPL operated only in London and the South-East. But Laing added that there was room for expansion in the future, if required, through Laing's existing 14 country-wide plant-hire depots. However, Laing was unlikely to allow EPL to expand to a size which would enable it to join the list of major scaffolding companies.

6.12. Laing thought scaffolding an easy market to enter. Many firms had grown rapidly and were now able to undertake quite large contracts, albeit mainly on the access side and those requiring little design capability. However, for complex large projects there were only about six companies with the necessary design capability to tender regularly. The proposed merger would reduce this small number even further, and give BET control of a much larger proportion of this market. In the long term this would lead to higher prices and to a reduction in service.

6.13. As far as the supply of tubular scaffolding and fittings was concerned, there were many companies competing in this market. The loss of SGB as independent suppliers would therefore have very little effect on Laing's choice of supplies. However, the market for systems equipment such as SGB's Cuplok was much more restricted, and the merger could affect hire companies and sub-contractors which competed for business based on SGB systems, especially if BET should decide to increase prices. Many companies holding stocks of Cuplok could be considerably disadvantaged if price rises forced them to write off their existing stock and to buy alternative systems. Another area Laing thought could suffer was that of product development. SGB was the leader in innovation and in the development of new products, and Laing saw little evidence of a similar attitude in other companies. Though BET might have every intention of continuing these activities, there was a cost attached to this; and, unless someone on the BET Board could be convinced that it was a cost which would bring in more work, then it might be curtailed. It was also

(*c*) the expansion of HSS Hire Group Ltd by the acquisition of Harrison Hire Ltd;

(*d*) the introduction by Scaffolding (Great Britain) Ltd of three new formwork and groundwork products, and the reorganisation of its work practices at depot level; and

(*e*) increased investment in Cuplok (an SGB patented scaffolding system) by BBE BV as a result of successful inroads into the supply of system scaffolding to the Dutch petrochemical industry.

Present activities

4.13. SGB's principal trading groups in the United Kingdom are:

(*a*) Scaffolding (Great Britain) Ltd;

(*b*) HSS Hire Group Ltd;

(*c*) Youngman Group Ltd;

(*d*) Peter Cox Ltd; and

(*e*) Contractors' Services Group Ltd.

4.14. *Scaffolding (Great Britain) Ltd* is the largest scaffolding company in the United Kingdom. Its activities encompass:

(*a*) the contracts division—which provides a complete scaffolding service for access and support including the supply of design expertise at all stages of a contract, scaffolding equipment and skilled labour for major civil construction contracts, industrial and petrochemical contracts, offshore contracts and general building and maintenance contracts;

(*b*) the hire and sale division—which supplies scaffolding, formwork and groundwork products and a wide range of building equipment for hire and sale from a national chain of 56 depots; and

(*c*) its subsidiary, Boulton Scaffolding Ltd—which manufactures pressed steel scaffold fittings for sale to SGB, its competitors, and direct to contractors.

Scaffolding (Great Britain) Ltd had 3,081 employees in the United Kingdom at 28 September 1985.

4.15. *HSS Hire Group Ltd* operates through three subsidiary hire companies: Hire Service Shops Ltd and HSS Hire Services Ltd, which concentrate on short-term hirings to the trade and to the general public, and HSS Builders Hire Service Ltd, which concentrates on longer hirings to the trade. The product range hired out includes small plant, power tools and equipment for building, decorating, cleaning, gardening, heating and mechanical handling, as well as furniture, floral decorations and tableware for events and exhibitions. In addition, Harduns (Contractors' Tools) Ltd sells a comprehensive range of tools and protective clothing to the construction and other industries from eight regional depots. HSS Hire Group Ltd had 715 employees in the United Kingdom at 28 September 1985.

4.16. *Youngman Group Ltd* operates through three subsidiaries:

(*a*) W C Youngman Ltd manufactures a wide range of access equipment (including towers and ladders) in aluminium and timber for hire and sale through 18 depots. For 25 years it has been the exclusive United Kingdom distributor of the 'Master' space heater.

(*b*) Youngman System Building Ltd designs and manufactures ROVACABIN and ROVASPAN instant accommodation for hire and sale.

(*c*) Youngman Fork Truck Hire Ltd hires out forklift trucks from four locations.

Youngman Group Ltd had 535 employees in the United Kingdom at 28 September 1985.

4.17. The principal activities of *Peter Cox Ltd* and its associated company *Stonewest Ltd* are as follows:

(*a*) Peter Cox Ltd specialises in stone cleaning and in the restoration of historic and other buildings, together with woodworm and dry rot control and damp-proof coursing.

(*b*) Stonewest Ltd specialises in restoration of stonework and the cleaning of the exterior of buildings.

Peter Cox Ltd and Stonewest Ltd had 870 employees in the United Kingdom at 28 September 1985.

4.18. *Contractors' Services Group Ltd* is a mechanical plant hirer and operates from 10 depots. It provides a comprehensive range of plant hire equipment, although operated plant and earth-moving activities are being gradually reduced and replaced by an increasing proportion of access and non-operated plant. Contractors' Services Group Ltd had 204 employees in the United Kingdom at 28 September 1985.

4.19. A chart showing the corporate structure of SGB is at Appendix 4.1. The turnover and profit before tax of the SGB United Kingdom scaffolding companies and the Youngman Group in the last three years is shown in the table at Appendix 4.2.

4.20. The turnover and estimated market shares of SGB's United Kingdom access industry activities in 1984 are shown in the tables in Chapter 2.

Management structure

4.21. The SGB Board consists of an executive chairman, four executive directors and four non-executive directors. It is responsible for overall policy direction and financial control.

4.22. Each executive director, other than the Finance Director, is Chairman of one or more of SGB's principal trading groups and together with the Company Secretary they are directly responsible for all the principal trading groups and central service functions. The executive directors meet monthly, and on an 'as needed' basis. Each of the principal trading groups also has a Managing Director who, together with his co-directors, is responsible for the day-to-day management of the operating companies within his trading group.

opposition to the proposed merger, while *The Construction Surveyors Institute and The Faculty of Architects and Surveyors* said that their Joint Practice Committee had no objection to the merger. Prices charged by SGB were known to be far higher than those charged by much smaller firms, and SGB tended to do business only with very large contracting organisations which could afford to pass on their scaffolding charges to their clients. The Committee felt that the main danger to the public interest was that a large firm should corner the smaller firms, by buying them up.

6.6. On behalf of plant hirers *The Construction Plant-hire Association* estimated that there were approximately 5,800 companies concerned primarily with the hiring of plant or associated equipment. It is said that in these circumstances it was very difficult to envisage how a combination of any two companies in the industry could constitute anything even approaching a monopoly. Apart from certain other large firms, the majority of the work in this industry sector was still carried out by thousands of smaller companies. *The Scottish Plant Owners Association* said that its Executive Committee had unanimously resolved that, with the industry being fragmented as it was, and with the substantial representation that was in place, it could proffer no evidence to support the view that the plant hire industry could in any way be prejudicially affected by the proposed merger.

Government departments and agencies

6.7. *The Department of the Environment* provided background information and said that, as the sponsoring department, they considered that weight should be attached to the expressed views of the construction industry. *The Property Services Agency* also provided background information, and said that they could not identify any benefits to the public which might result from the merger. They expressed general concern that, should the merger take place, the competitive market would be reduced, particularly for larger projects.

Employees of SGB

6.8. We heard from four individuals, all of whom were employees of SGB and were opposed to the merger. Three expressed anxiety for their future job security and career prospects. Two also suggested that SGB consistently outperformed the rest of the scaffolding sector; BET would have nothing to add to a joint venture, and any dilution of SGB's expertise would be to the detriment of the whole industry.

Customer users of scaffolding services.

6.9. Of those that wrote to us we invited five building contractors to supplement their information and views by giving oral evidence.

6.10. *M J Gleeson Group PLC (Gleeson)* felt that the proposed merger would place it (and other medium-sized construction companies) at a disadvantage and reduce its competitiveness, particularly when tendering alongside larger-sized contractors for large or complex contracts. For such work Gleeson needed to go to specialised scaffolding companies, such as SGB, both to hire equipment and to provide design and pricing expertise. Only SGB was

CHAPTER 6

The views of third parties

Trades unions

6.1. The *Transport and General Workers Union* said that its members had expressed a number of concerns about the proposed merger. These included future investment plans; whether depots were likely to be closed with resultant redundancies; the continuation of existing joint agreements and procedures between employers and unions; the continuation of existing benefits, wages and conditions in the event of people being transferred, and of the policy of direct employment; and continued attention to the health and safety regulations and to training.

6.2. The *Union of Construction, Allied Trades and Technicians* Works Convenor at SGB's W C Youngman plant at Crawley wrote to say that his members' main fear was that, as BET competed in a similar business with Youngman, it could well consider merging Youngman's production with its own, which was located in other parts of England. Closure of the Crawley plant would mean a loss of skills and jobs without any opportunity of obtaining employment in the same area in the foreseeable future. Suppliers to Youngman could be similarly affected.

Trade associations and professional bodies

6.3. We wrote to 16 scaffolding, building and construction and other associated trade bodies. Ten replied and six commented on the proposed merger.

6.4. *The National Association of Scaffolding Contractors,* which claims membership of most of the leading firms in the access industry including BET and SGB, did not wish to comment. *The Building Employers Confederation,* whilst also declining to comment, told us that 'the Building Industry has a need for the supply of goods and services from a wide variety of sources and it is considered important that the supply of those goods and services be subject to as full and free competition as can reasonably be achieved.' *The Scottish Building Employers' Federation* said that it would be happy to be associated with comments made by and on behalf of these two bodies. *The Federation of Civil Engineering Contractors* said that most civil engineering contractors relied extensively on hiring in scaffolding and framework support for their very large contracts and for contracts that required an unusual design solution. Although there was a multiplicity of small scaffolding companies operating in the construction industry, there were in fact only three companies, BET, SGB, and GKN, with sufficient resources to undertake this type of work. The proposed merger would further reduce this already restricted choice for these specialised services to such an extent that, if one or other of the two remaining companies was not in a position to quote for a certain contract, competition would be non-existent.

6.5. Among professional bodies *The Construction Industry Research and Information Association* could find no reason for making any representation in

4.23. SGB has a decentralised management structure which is intended to encourage each operating company to develop as a separate profit centre. Consequently, in preparing its budget and three-year plan, an operating company is expected to address its future direction and prospects and to propose changes in strategy. Whilst the SGB Board retains overall responsibility for future policy, it is assisted in developing trading strategies by detailed presentations and senior management conferences which are used to co-ordinate ideas and plans.

4.24. Financial controls are exercised in three areas:

(*a*) annual budgets;

(*b*) monthly reporting and monitoring; and

(*c*) capital expenditure.

4.25. Budget guidelines, which are issued to each operating company and to Group central services, include pro-forma documents to be completed and returned for consolidation into the SGB budget. All final budgets are approved by the SGB Board and thereafter form yardsticks against which to evaluate turnover, profits, cash flow, capital expenditure, stock and borrowing levels.

4.26. Each operating company prepares a monthly report which contains trading accounts, balance sheets and cash flow forecasts, together with supporting analyses of stocks and debtors.

4.27. Each month the SGB Board receives a graphical presentation in respect of the principal trading groups which enables it to monitor progress to date and the current forecasts of the likely outcome for the year. These presentations enable the SGB Board to ensure performance is broadly in line with budget and to seek explanations if it is not. The graphical presentations also enable the SGB Board to monitor Group profits, borrowings, gearing and liquidity.

4.28. The SGB Board retains responsibility for authorising capital expenditure. Even though proposed capital expenditure may have been budgeted for, the authorisation process allows the SGB Board an opportunity to exercise restraints if the borrowings of SGB as a whole are running ahead of budget.

Financial information

4.29. SGB makes up its accounts under the historical cost convention[1] for periods of 52 weeks (or 53 weeks when necessary) to the close of business on the last Saturday in September each year.

4.30. Table 4.1 summarises SGB's balance sheets at its accounting dates in each of the last five years.

[1]SGB discontinued publishing current cost accounts after 1983.

TABLE 4.1 **SGB Group: summarised group balance sheets**

£'000

	1981	*1982*	*1983*	*1984*	*1985*
Fixed assets, including investments and finance leases	35,745	50,681	53,024	47,371	48,583
Net current assets	50,996	54,763	61,165	66,977	72,150
Less long-term liabilities	(17,904)	(25,719)	(30,052)	(30,303)	(37,925)
Net assets	68,837	79,725	84,137	84,045	82,808
Shareholders' funds					
Share capital	10,362	10,454	10,492	10,596	10,718
Share premium account	58	92	328	808	1,466
Revaluation reserve	1,512	8,888	8,888	8,505	8,425
Retained profits	52,014	54,084	56,893	49,382	48,507
Minority shareholders' interest	1,834	736	828	355	344
	65,780	74,254	77,429	69,646	69,460
Deferred tax	3,057	5,471	6,708	14,399	13,348
	68,837	79,725	84,137	84,045	82,808

Source: SGB.

Note: Changes in the method of presenting the balance sheet means that the figures for 1981 are not strictly comparable with those for the later years.

4.31. Table 4.2 summarises SGB's profit and loss accounts for each of the last five accounting years.

TABLE 4.2 **SGB Group: summarised group profit and loss accounts**

£'000

	1981	*1982*	*1983*	*1984*	*1985*
Group turnover	139,235	153,639	160,419	177,455	189,127
Gross profit	Not reported	37,980	38,811	45,509	50,724
Operating profit	15,356	13,569	11,093	14,109	17,228
Add: Investment income	825	974	847	1,911	964
Deduct: Share of related companies' losses	N/A	325	(187)	(240)	(184)
Provision against investments	N/A	(101)	(606)	(180)	6
Interest payable	(3,666)	(3,390)	(3,904)	(4,593)	(4,512)
Profit before tax	12,515	11,377	7,243	11,007	13,502
Taxation: current	(6,031)	(3,074)	(2,200)	(4,112)	(6,154)
deferred	(106)	(2,438)	(1,102)	826	425
Adjustment for minorities	71	90	120	42	31
Extraordinary items	—	—	—	—	(2,025)
Profit for the period	6,449	5,955	4,061	7,763	5,779
Dividends	(2,320)	(2,331)	(2,347)	(2,666)	(3,213)
Retained profit for the period	4,129	3,624	1,714	5,097	2,566

Source: SGB.

Note: N/A = not available.

4.32. Table 4.3 shows SGB's returns on average capital employed and on net assets for each of the last five years.

The effects of the merger on research and development

5.96. SGB referred to its history of product innovation, and said that for a company in the construction industry it maintained a sizeable research and development department. By contrast, the most recent Report and Accounts of BET Access showed it had no direct involvement in the field of research and development. SGB pointed out that it used computers to assist in the design of complex scaffolding structures, but BET did not. It thought it very unlikely that BET would retain SGB's R & D department, the continuation of which appeared inconsistent with BET's policy of market domination and of maximum profit.

The effects of the merger on imports

5.97. SGB argued that the merger might be expected to result in a standard range of scaffolding equipment being stocked at all SGB/BET depots. It pointed out that there were a number of other system scaffolding ranges available in Europe and North America. Attempts to penetrate the United Kingdom scaffolding market with these systems had been unsuccessful to date. But the rationalisation of depots and of stock ranges, which would follow the proposed merger, would create an ideal opportunity for a strong foreign company to seek to establish and promote its own system scaffolding in the United Kingdom. Any reduction in research and development in the longer term, and consequent slowdown in the introduction of new products would also assist import penetration of products developed and manufactured abroad.

5.98. The merger might also lead to increased imports of steel tube. SGB purchased the majority of its steel scaffolding tube from United Kingdom producers. BET was understood to purchase the majority of its requirements from Eastern Europe. If this purchasing policy was extended to SGB, it would jeopardise steel tube production in the United Kingdom, to the benefit of foreign suppliers.

Implementation of the merger

5.99. SGB told us that it was unable to make substantial comments since BET had said that it did not intend to decide how SGB's access operations would be integrated with those of BET until it was able to discuss the subject with Scaffolding (Great Britain)'s management. However, it found it very difficult to see how BET could implement the merger in human terms, including choosing between senior and other management to run the combined operation. Similarly, it was not clear how BET would eliminate competition between Scaffolding (Great Britain) Ltd and its own access companies, without wholesale closures and possible relocation of one or other depot network. SGB presumed that BET would not want to throw away SGB's name, nor equally their own well-known names; but SGB did not know whether BET would try to restrict the trading activities of parts of the two companies.

predatory pricing, or by discriminating against some of them in their own purchasing. SGB did not regard imports as an effective alternative source of supply. Some imports were of poor quality; others were expensive at current rates of exchange.

The supply of scaffold tube

5.93. The merged companies would account for some 43 per cent of the purchases of all scaffold tubes. SGB argued that their purchasing power, when coupled with the risk of losing all or part of the business to imports, would enable the merged companies to negotiate the purchase of scaffold tube at preferential rates, thus giving them an unfair advantage over other contractors and suppliers.

The effects of the merger on employment and training

5.94. SGB suggested that the merger could lead to over 900 redundancies, offset by the number of new jobs that would be created in BET's ladder manufacturing unit after SGB's corresponding units had been transferred to it. The activities in which SGB suggested redundancies would or could occur were as follows. First, most of the employees in SGB Group's Head Office and of the Head Office of Scaffolding (Great Britain) Ltd (or equivalent numbers of BET employees, if the latter were displaced) would become redundant; a total of 258. Second, half of the 126 staff in SGB's regional offices would be made redundant. Third, redundancies would arise from the duplication of staff in SGB depot areas which overlapped closely with those of BET, and in SGB's three warehouse and repair depots; SGB put the potential redundancies in this part of the combined businesses at 241. Fourth, SGB argued that it would be commercial logic to combine the two ladder manufacturing facilities by closing down SGB's unit (Youngman); the number of new jobs that would then be created in BETs expanded unit (Stephens and Carter) would be far fewer than the 320 redundancies caused by closing Youngman's factory. Finally, there would be about 45 redundancies from integrating SGB's fork truck hire business and its Contractors' Services Group with BET's complementary operations.

5.95. SGB said it had been committed over a number of years to training scaffolders, and was an active participant in the Youth Training Scheme. BET had a markedly different approach, and its scaffolding companies did not participate in the Youth Training Scheme. In 1985, when SGB sent 300 people for training at the Construction Industry Training Board centres, BET sent 30 people. In the same period, SGB sent 10 school-leavers on a one-year course to the Civil Engineering College, whereas BET sent none. SGB also pointed out that its scaffolders were in the main employees of SGB, but that BET used more self-employed scaffolders. SGB therefore considered that the merger would result in a dilution of its training philosophy, and would have an adverse impact on training in the merged companies and in the industry as a whole (since many staff trained by the large companies left to set up, or go into, smaller companies). If SGB's training philosophy was preserved, it followed that the industry as a whole stood to benefit.

TABLE 4.3 **SGB Group: returns on average capital employed and net assets**

	1981	*1982*	*1983*	*1984*	*1985*
Average capital employed (£m)	84·6	91·5	108·4	117·2	115·3
Profit before interest payable and tax (£m)	16·2	14·8	11·1	15·6	18·0
Return on average capital employed (%)	19·1	16·2	10·2	13·3	15·6
Average net assets (£m)	66·3	74·3	81·9	84·1	83·4
Profit before tax (£m)	12·5	11·4	7·2	11·0	13·5
Return on average net assets (%)	18·9	15·3	8·8	13·1	16·2

Source: MMC.

4.33. At 16 January 1986 SGB's issued share capital consisted of 42·9 million ordinary shares of 25p each. There were 2·0 million share options outstanding. Its most recent annual report stated that the directors had been notified that there were the following substantial interests in the issued share capital of the company at the date of the report (16 January 1986):

14·01 per cent owned beneficially by BET Public Limited Company
10·25 per cent owned beneficially by Kuwait Investment Office.

4.34. Following the announcement of the recommended offer by John Mowlem & Company PLC for SGB, referred to in Chapter 5, BET sold shares representing 5·1 per cent of SGB's issued share capital to Mowlem's merchant bankers, who also purchased the entire Kuwait Investment Office holding.

Chapter 5

The proposed merger and the views of the main parties

The merger situation

5.1. On 23 October 1985 BET announced its intention to make an offer to acquire the whole of the issued share capital of SGB. BET told us that it had for some time been considering the acquisition of SGB, in pursuance of the strategy explained in Chapter 3. Its decision to go ahead at that time was partly dictated by the fact that on 9 October 1985 C G Beazer (Holdings) PLC, which then owned 4·9 per cent of the issued ordinary share capital of SGB, launched a tender offer for 25 per cent of the shares of SGB, which was seen as the prelude to a full bid. The Beazer offer was not recommended by the Board of SGB. It lapsed on 23 October 1985 and BET acquired the Beazer holding.

5.2. BET's formal offer was made on 15 November 1985. It was to acquire all the SGB ordinary shares (other than the 3,900,000 shares representing approximately 9·1 per cent of SGB's issued share capital which BET then owned) in the proportion of 3 new BET shares for every 4 SGB shares. There was no cash alternative. The first closing date was 6 December 1985.

5.3. SGB's formal defence document was issued on 30 November 1985. It advised shareholders not to accept BET's 'unwanted and unacceptable bid'.

5.4. On 14 December 1985 BET circulated a further letter to SGB shareholders. This indicated that, by the first closing date, BET had received acceptances for 15·1 per cent of SGB which, taken together with the 10·3 per cent which BET now owned, represented 25·4 per cent of the company. The offer was extended to 20 December 1985.

5.5. The SGB Board responded in a letter to shareholders on 16 December 1985, describing BET's proposal as 'a hopelessly inadequate offer'.

5.6. On 19 December 1985 the proposed merger was referred to the Commission and the offer automatically lapsed. On 10 January 1986 the Department of Trade and Industry announced that the Secretary of State had received undertakings from BET not to acquire any part of the share capital of SGB, which would result in its holding or having an interest in more than 15 per cent of any class of shares in SGB Group PLC or its subsidiaries during the period of the Monopolies and Mergers Commission investigation.

5.7. On 17 April 1986 the Directors of John Mowlem & Company PLC (Mowlem) and of SGB jointly announced that terms had been agreed for an offer to be made by Mowlem for the whole of the ordinary share capital of SGB not already owned by Mowlem. The offer would be 6 new Mowlem ordinary shares plus 255p in cash for every 7 SGB ordinary shares. In lieu of the cash element, accepting shareholders could elect to receive a Loan Note alternative. Additionally shareholders were offered an all cash alternative of 345p in cash for each ordinary SGB share.

5.8. Later on 17 April BET announced that it had sold part of its shareholding in SGB to the bankers acting for Mowlem. BET had built up a stake of 14

Alternative sources of supply

5.87. SGB did not consider that the very numerous advertisers of scaffolding equipment, such as those in Yellow Pages, represented an effective alternative to the depots of the main scaffolding companies or other sizeable suppliers. They could not offer a range of stock to meet the needs of most customers, nor be relied on to have equipment available when required.

5.88. SGB did not expect that the number of other outlets which supplied scaffolding on hire to increase, if the merger were allowed to proceed. A sizeable yard was required to store tube, scaffold boards and fittings, and substantial capital expenditure to acquire the hire stock. Labour at the yard, transport from it, and sales effort were essential. The business was only profitable if stock control was tight; this was a time-consuming and tedious task, but essential in an industry where stock was hard to identify and was frequently lost or stolen. The risk of bad debts in the small projects sector was also high. For these reasons the supply of scaffolding to that sector was not attractive to new entrants.

5.89. SGB also argued that the building companies were not an effective alternative source of supply. It was not their main line of business; they had comparatively few depots; and they were also deterred by the risk of bad debts.

The effects of the merger on other sectors of the access market

Ladders

5.90. SGB argued that the merged companies' share of this market, some 30 to 35 per cent as a whole, and divided into industrial/trade and domestic ladders, would enable them to increase prices. If they put the factories of Stephens and Carter and Youngman together into one establishment, this would reduce production costs, and enable them to attack the much smaller producers; there was only one other company (Abru) similar in size to either of the BET or SGB companies, and this made mainly different products, such as steps. While new entry might be easy for Abru's type of product, and on a small scale, SGB did not consider that entry was easy for the type of product and scale of output of Stephens and Carter or Youngman. SGB pointed out that BET had acknowledged the potential adverse consequences of the proposed merger on this sector of the market and, at the time of making its offer, had said that it was prepared to sell SGB's ladder manufacturing business if the merger took place.

Other means of access

5.91. SGB argued that the merged companies would have such large market shares in aluminium access towers and in cradles that they would be able to obtain higher prices for these products.

The supply of scaffolding fittings

5.92. SGB argued that the two types of scaffolding fittings in use, pressed steel and drop forged, constituted one market, of which the merged companies would control about 36 per cent. It contended that that would enable them to pursue several alternative courses of conduct; they could withhold supplies or demand increased prices. They could weaken competing suppliers, either by

equipment to the small projects sector and the terms and prices at which such equipment was supplied.

The range and choice of equipment available

5.83. SGB also commented on the effects of the merger on the range and choice of equipment available to small scaffolding companies. A large proportion of the equipment supplied was standard tube and boards; but for the other equipment (system scaffolding, towers, fittings, ladders, cradles and powered access) SGB and BET supplied different products. The merged companies would, in SGB's view, find it uneconomical to supply both ranges. But movement to a unified range would restrict choice for the small scaffolding companies, leave them with useless stock, or make it uneconomical for them to use existing stock because matching stock was no longer available for sale or hire within the immediate locality.

Possible shortages of supply

5.84. SGB argued that the merger would lead to shortages of supply. It expected that the stock carried by SGB and BET together would be less than that carried by them if there was no merger. In the early 1970s stock shortages were common, and even in the 1980s there had been local, seasonal and regional stock shortages. Stock shortages would be a real risk if the merger was followed by a period of increased construction activity. The availability of stock was critical, not only to the small scaffolding company but also to the small contractor it was assisting; and the non-availability of a small amount of tube or fittings could bring a whole site to a standstill. Any reduction in availability of stock would thus have far-reaching adverse effects on the supply of scaffolding for small projects; prices would also rise. Furthermore, the merged companies would give priority of supply to their own contracting division.

Courses of conduct which the merged companies might pursue

5.85. In addition to the courses of conduct open to the merged companies already mentioned, SGB suggested that the merged company would have such a strong market position that they would be able to stop supplying small scaffolding companies, or other suppliers, such as plant and equipment dealers, which bought from SGB and others to supply to the small scaffolding companies. Alternatively, the merged companies could increase its prices to such customers, to make them uncompetitive against their own contracting division.

5.86. SGB pointed out that BET in its offer document had said: 'We are confident that we can play our part in preventing the increasing fragmentation of the industry and the growing proportion which is now in the black economy.' SGB considered that this would only be possible if the merged companies, as market leader, took a policy decision to cease or reduce hiring scaffolding to their competitors. But such a step would increase the demand for the services of the black economy; at the same time it would put out of business a substantial number of small scaffolding contractors, benefit the contracting division of the merged companies and increase the merged companies' market share in all parts of the scaffolding market.

per cent of SGB's capital (6 million shares) during its takeover attempt on the company. In that transaction BET had sold 1,395,000 SGB shares (3·2 per cent) at 372·4p to Mowlem's merchant bankers and, conditionally, a further 831,650 shares (1·9 per cent) at the same price. The remaining 9 per cent stake kept BET's options open.

5.9. The formal offer documents for the Mowlem bid were issued on 25 April 1986 with a first closing date of 16 May 1986. The offer was conditional, *inter alia,* on the Office of Fair Trading indicating, in terms satisfactory to Mowlem, that the Secretary of State for Trade and Industry did not intend to refer the proposed acquisition to the Monopolies and Mergers Commission.

The overlap activities

5.10. BET and SGB identified the following areas in which their activities overlapped, and to which the Commission's investigation was accordingly directed. These activities are indicated in Table 5.1.

TABLE 5.1 **Overlapping BET and SGB activities 1984***

Activity	*BET subsidiary*	*Turnover* £million	*SGB subsidiary*	*Turnover* £million
UK access	BET Access PLC	50·6†	Scaffolding (Great Britain) Ltd	53·3‡
			W C Youngman Ltd	3·0
Ladder manufacture	BET Access PLC	7·0	W C Youngman Ltd	9·0
Scaffolding fittings manufacture	BET Access PLC	1·4	Boulton Scaffolding Ltd	2·6
Forklift truck hire	Eddison Plant Ltd	6·0	Youngman Fork Truck Hire Ltd	1·0
General plant hire	Eddison Plant Ltd	7·1	Contractors' Services Group Ltd	5·8

Source: BET and SGB.

* Figures derived from financial accounts information, and may not therefore correspond with estimates of market sizes and shares in Chapter 2.
† Includes a full year effect of UBM Scaffolding acquired in October 1984.
‡ Adjusted for turnover in formwork, which is not considered part of the access market.

A. The views of BET

BET's business strategy

5.11. BET told us that its proposal to acquire SGB was an important step in its strategy of concentrating upon those business sectors which had good growth potential and which it knew well. BET had had interests in the construction sector for over 35 years and in the access sector specifically for more than 15 years (see paragraph 3.8). It had expanded its interests in the access business by a number of acquisitions during the past decade, and brought them together into an intermediate holding company, BET Access PLC, in 1983. (BET's strategy and its expansion in the access industry are described more fully in paragraphs 3.4 to 3.13). The bid for SGB was a further step in the implementation of the above strategy.

The overlap of BET's and SGB's businesses

5.12. BET said that the main activities in which the two companies' interests overlapped were in access operations, and the manufacture of ladders and of scaffolding fittings.

5.13. Both companies had interests in some other fields; but the objectives of the merger in these fields were secondary to the overall aim of merging the scaffolding operations of the two companies. BET considered that these

overlaps had no significant implications for competition or the public interest. In the hire of forklift trucks, SGB's turnover in 1984 was very small (estimated at just over £1 million per year) and the combined market share would be about 8·5 per cent, some 50 per cent less than that of the market leader. In general plant hire, BET's and SGB's combined turnover, in 1984, was estimated at £14 million, some 7 per cent of the total market, and about 70 per cent of the size of each of the two market leaders. SGB's chain of shops hiring small plant, power tools and equipment (HSS) was an important part of its business, whereas BET had only four retail outlets in this field.

The objectives of the merger and the benefits expected from it

The reduction of costs and improved competitiveness

5.14. BET told us that the overall objective of the merger in the access market was to create a more efficient operating unit with lower overall costs, the benefits of which, in a continuing competitive environment, would be enjoyed by customers. It said that in its offer document for SGB it had shown how in recent times the senior management of SGB had failed to deal with the key problem in the access business, namely the loss of market share by itself and the other large companies to the many small new entrants and to the black economy. SGB had instead made a series of largely unsuccessful attempts at diversification both in the United Kingdom and overseas. BET argued that the renewed vitality of the two companies which the merger would produce would be a significant benefit because the market in which they operated had suffered from the social disadvantages that increased fragmentation and the black economy had caused.

5.15. The reduction of operating costs would be achieved in several ways. BET would be able to merge some of the depots of the two companies and save on local depot costs. It estimated (tentatively at this stage) that over four to five years some 20 depots could be amalgamated saving £0.8 million per annum. It would be able to rationalise overhead costs. These savings (notably Head Office costs) could be up to £2 million per annum after four years. Some savings from a more efficient management of the stocks of equipment and the transport facilities of the combined companies should also be possible.

5.16. BET said that, by using the cost savings to reduce prices, it aimed at least to stabilise the market share of the combined companies; regaining the lost share would be extremely difficult given the cost advantages of the small scaffolding companies and, still more, the operators in the black economy. Savings of the order of magnitude indicated would not enable large reductions in prices to be made, but reductions of even 2 or 3 per cent would be significant when combined with the assurance of good and reliable service in which the merged companies would have an advantage over the smallest competitors.

5.17. The social disadvantages which, BET argued, would be reduced by improving the competitive position of the merged companies included the following. First, the smaller companies attached less importance to training their employees and maintaining or improving safety standards. The information available showed that, even for companies who were members of the National Association of Scaffolding Contractors (NASC), the incidence of injury was higher in smaller companies than in larger ones; this also applied to self-employed scaffolders as compared with the employees of reputable

they were competitors; but, when others had started to supply, SGB had eventually (in 1979) decided it could not afford to turn away such business. Competition in hire and sale had intensified in recent years, since SGB had lost its pre-eminent position in this as in other parts of the scaffolding market.

The effects of the merger on competition in hire and sale, and in small scaffolding projects

The general effects

5.80. SGB pointed out that the merged company would operate some 45 per cent of all depots supplying a comprehensive range of equipment, and would dominate the supply of all basic scaffolding equipment to the small projects sector. The merger would have an even greater impact if the market was looked at regionally. In the South-West the merged company would operate 11 of 18 depots carrying a comprehensive range of scaffolding. In East Anglia it would operate 12 of 19 such depots. Some other local monopolies would be created. In such situations the merged company could increase prices without risking loss of business.

5.81. Where a depot of the merged companies alone served one locality, or where rationalisation of depots led to such a situation, the merged companies:

(*a*) would control the availability of a full range of scaffolding in their area and the price it was supplied at;

(*b*) would have the ability to discriminate, whether in terms of price or by refusing technical assistance, against a potential competitor of their own contracting division; and

(*c*) could control the level of activity of any given company by granting, amending or refusing credit applications.

5.82. In commenting generally on the possibilities of rationalisation of depots, SGB said that in 32 locations its and BET's depots were in close proximity; the most obvious benefit from the merger might appear to be the rationalisation of these depots with consequent cost savings being passed on to customers in lower prices. But such a move would be unlikely to result in any benefit because:

(*a*) the closure of depots would necessitate a decision as to which company name was to continue to trade in that locality;

(*b*) the use of one depot for contracting and the other for hire and sale would not result in any reduction in costs and overheads and would not satisfy the requirements of customers;

(*c*) the only SGB depots physically capable of housing combined SGB and BET depots were at Heathrow, Coventry, Birmingham, Battersea and Southampton. SGB was not aware of any BET depots physically capable of housing combined SGB and BET depots; and

(*d*) the process of closing two existing depots to relocate in a single new depot would involve both substantial capital expenditure and disruption to the existing businesses during and after the move.

SGB therefore argued that the only benefit which would accrue to the merged companies from the proximity of many BET and SGB depots would be their ability to control an increased proportion of the supply of scaffolding

The hire and sale of equipment

The present situation

5.75. SGB suggested that the principal effect of the merger on competition for small scaffolding projects would be through hire and sale of scaffolding equipment to the smaller scaffolding companies operating in this sector. The main scaffolding companies were an important source of supply of equipment to these small companies, although they were also competitors. SGB supplied information on the number and location of some 250 depots of the main scaffolding companies engaged in this business, and offering a comprehensive range of equipment.

5.76. It listed the functions of these depots, as follows:

(*a*) they had sufficient stock, either on site or available from other depots in the same group, to ensure that a full range of scaffolding equipment was available at short notice even in periods of peak demand;

(*b*) they provided credit to their regular customers;

(*c*) they provided scaffolding equipment at prices which had to be competitive both with their national competitors and with local competitors;

(*d*) each national network, whilst providing a broadly similar range of scaffolding equipment, carried different stock which would be better suited to some specialised jobs;

(*e*) the national networks set the standard in each locality for the maintenance of stock and for safety requirements generally; and

(*f*) an important element of the service provided by the national networks was advice, both technical and practical, as to how to solve access and support scaffolding problems, including if necessary assistance with the preparation of working drawings and the calculation of stress and load factors.

Only five companies, SGB, BET, GKN, Palmers and Leada Acrow, had nationwide depots. Palmers and Leada Acrow undertook little sale business.

5.77. In addition to the above depots supplying a comprehensive range of equipment there was a large number of smaller depots and hire shops which hired and sold a very limited range of scaffolding but which did not provide the range of services described in the preceding paragraph. It was these outlets which serviced the equipment needs of the black economy.

5.78. SGB said that it was uneconomical to transport scaffolding more than 40 miles, and for much of the hire and sale business 20 miles was a more realistic radius for competition between depots. Thus, the ability to supply scaffolding and expertise in a particular locality depended entirely upon the location of depots, with the result that there was the potential for a large number of local monopolies. An exception to this was the supply of equipment such as proprietary formwork systems; in SGB's case, most of this was supplied from four centres in Great Britain.

5.79. The hire and sale of equipment to other scaffolding companies amounted to some 20 to 25 per cent of SGB's total hire and sale business, the remainder being mostly supply to construction companies. SGB had had a policy of not supplying equipment to the small scaffolding companies because

scaffolding companies. Secondly, there was a trend for the smaller companies to treat more of their employees as self-employed, thus avoiding the payment of national insurance contributions and payments for public holidays, as well as releasing them from other obligations, such as under the employment protection legislation. This added to the costs which the larger, responsible companies incurred compared with the small companies. Thirdly, by maintaining a significant presence in the industry BET would contribute to improving standards in matters such as public liability and works insurance, and in reducing tax evasion and theft.

Increased investment

5.18. BET argued that the improved profitability of the merged company would encourage it to increase the level of investment, which had been generally at a low level in recent years in the industry. BET believed that significant investment was needed in the industry.

Opportunities to expand activity overseas

5.19. BET argued that overseas markets for access services could be exploited more successfully by the merged company than by either BET or SGB alone. Some of SGB's overseas operations had been failures. BET's overseas access activities had been limited by management attention being concentrated on the integration and development of its United Kingdom access activities. BET believed that, with its experience and management expertise in overseas markets in other sectors, it could successfully develop the combined enterprise into an international access supplier with potential for significant foreign earnings, particularly in offshore scaffolding.

Implementation of the merger

5.20. The major part of SGB's operations would be integrated into BET Plant Services PLC, in which most of BET's corresponding activities were located. By far the largest element of the operation would be the integration of Scaffolding (Great Britain) Ltd's with BET Access PLC. BET did not wish to decide finally how this and other integration of the two companies should be done without involving Scaffolding (Great Britain)'s management in the decision-making process and after thorough consideration of the tasks; implementation could take up to two or three years. BET said it had a high regard for SGB's operational management and believed that there was a very attractive future for them in BET. There would undoubtedly be some reorganisation of SGB's activities so that they could be assimilated more effectively within the corresponding parts of BET's operations. BET was anxious not to lose the SGB name and the valuable goodwill that was associated with it. As for those parts of SGB's business which did not overlap with BET's, BET saw them as valuable additions to its operations. SGB's overseas companies would be carefully reviewed. We asked BET whether the integration of SGB's large single scaffolding operation into its own group of much smaller scaffolding companies might lead to difficulties (for example, in the choice of names to preserve), and to loss of efficiency and competitiveness. BET saw no reason why that should happen. It had considerable experience in integrating companies and depot networks; and, as already said, it intended to look at the problems very carefully, with Scaffolding (Great Britain)'s management also, before deciding on any changes.

5.21. BET said that greater management resources might be required both at intermediate holding company level and at operating company level; but those could readily be found either in BET or (as was expected) in SGB or in a mixture of both. Furthermore, the BET group as a whole would make available whatever management resources were required to merge and run the two companies properly.

5.22. BET said that any suggestion that it might run down certain aspects of SGB's operations such as its contributions to safety and training, its research and development efforts and the provision of particular consultancy services for contractors were utterly unfounded. BET was not preparing to spend a substantial amount in acquiring SGB only to run down its key activities. On the contrary, BET would support and develop all those aspects of SGB's operations that would improve the value of the service provided by the combined operation, including those mentioned. It considered that its standards in safety and training, and its contribution to the work of the NASC on these and other industry-wide matters, were on the same level as SGB's. BET told us that, provided the NASC agreed, it intended that the merged company would provide the same level of contribution to the Association's work and committees as BET and SGB together provided in present circumstances. Consultancy services to contractors, including those provided by SGB, would be supported and maintained.

The effects of the merger on competition

BET's general comments

5.23. BET suggested that the merger need not materially diminish competition in the whole or any part of the access market. The merged companies' market share of the total access market would lie between almost 19 and 22·8 per cent (depending on whether or not specific allowance for the black economy was included in the market figures—BET thought that such an allowance should be made). BET argued that the market should be looked at as a whole, rather than by separate sectors, because there was considerable—though not total—competition between the various methods of access used, and much substitution between them (see paragraph 5.26). The total market share figure also masked the fact that BET's and SGB's interests lay, in some important respects, in different parts of the access market. Whilst SGB had a strong position in large townwork scaffolding projects, BET's presence was tiny (with a market share of about 2 per cent). Conversely BET was a leading competitor in the industrial and petrochemical sector, but SGB's presence there was not significant (with a market share of about 6 per cent).

5.24. Among the major competitors of the merged companies were GKN, with a market share of about 9 per cent, Deborah with 3 per cent and Palmers with 2 per cent. There were a larger number of regional scaffolding companies which collectively held a substantial share of all sectors of the market except for offshore work. The access market had been characterised, over the five years up to 1984, by a decline in the major suppliers' combined market share and rapid growth in the number of access suppliers (from 600 to over 1,300). These developments had been associated with a cost advantage in favour of the smaller suppliers estimated by BET at some 5 per cent. The merger of BET and SGB would only eliminate a part of this cost disadvantage, and would not

Other major scaffolding projects

5.72. For major scaffolding projects as a whole (excluding the more complex ones), it was noticeable that BET tendered for almost as many as SGB, but won far fewer contracts. SGB suggested that it had a better management and better back-up facilities—in design, product development and training—better service to customers, and a higher degree of commitment to the scaffolding market. It thought that, if as a result of the merger its skills were applied on a wider scale, the merged companies could become more competitive and increase market share. If the merger did not take place, BET might be able to improve its position, partly by using market information which had become available to it during the Commission's inquiry, and fulfill its customers' existing perception that it was able to undertake all major projects sector contracts, including the most technically sophisticated.

The in-house operations of construction companies

5.73. Finally, SGB referred to the competition which might be provided, for major building projects, by the in-house scaffolding operations of the construction companies. Most major construction companies carried some scaffolding equipment and did some of their own scaffolding. The employment statistics showed that in the past decade there had been a decline in the amount of scaffolding done in-house by construction companies. SGB saw several reasons for this. The decline in construction activity had put pressure on margins; the cost of in-house work had sometimes been found to be higher than that of employing the specialist scaffolding companies. A number of large construction companies had been reducing their stocks and in-house operations. Safety standards had been tightened. SGB's experience was that very large or complex scaffolding projects were now almost invariably contracted out to the specialist scaffolding companies, because the main contractor did not possess in-house the necessary design expertise, labour and equipment. SGB said that there was no evidence that the vast majority of main contractors had the expertise or the inclination to undertake complex scaffolding projects. Contracting out meant that the scaffolding company's insurance cover reduced the exposure of the main contractor. SGB argued that, if the merger led to higher prices for major scaffolding projects, it would not cause a reversal of the trend for main contractors to do less of them in-house; because the cost of scaffolding was passed directly to the ultimate client, a general increase in prices would not disadvantage any particular building contractor. SGB therefore considered that the in-house operations of building companies should be largely disregarded when considering the effects of the merger on competition for major scaffolding projects.

Smaller scaffolding projects (under £50,000)

5.74. SGB accepted that, apart from the hire and sale of equipment, the merger would not have a significant effect on competition in the smaller scaffolding projects (below £50,000 in value). Competition in this part of the market had intensified considerably, because of the entry of some hundreds of new, small competitors, as well as pressure from the black economy.

tendering; SGB argued that this would effectively exclude parties who sought to rely on the resources and skills of third parties. The cost of the designer's fee had to be met (whether the tender was successful or not); the expense could make the small company's quotation uncompetitive. A company relying on outside design services could not guarantee the requisite quality and flexibility of service to meet changes in this programme of work; if the work was not satisfactorily completed, the main contractor would be faced with a potential dispute as to liability between the scaffolding sub-contractor and the designer. Nor could the small company provide adequate insurance cover, or meet the increasing demand for performance bonds for the more complex projects.

5.69. SGB argued that the merger would result in a diminution in competition for major scaffolding projects because of the considerable share of the sector which the merged company would have, rising to nearly 50 per cent in the highly specialised offshore sector. The competition between SGB, BET and GKN for all major contracts resulted in competitive pricing for major projects. Smaller companies had to take particular care in pricing large contracts, which could represent a third or more of their annual turnover. The reduction from three to two substantial companies could be expected to result in higher prices for major scaffolding projects.

Offshore projects

5.70. SGB also drew attention to some particular considerations affecting competition in different sectors of the market for major scaffolding projects. In the offshore sector, particular skills, experience and equipment were required, and the work was dangerous and physically demanding. The oil companies were more concerned with safety and service than just with prices, so that the merged companies would find it easier to increase prices. Alternatively, they could reduce prices to weaken or eliminate selected competitors more readily in this sector than elsewhere, because the number of contracts and competitors was smaller than in other parts of the market. SGB said that the merged companies could be in a better position to deal with sudden demand for substantial additional resources to be deployed immediately, which was another feature of offshore work.

Industrial and petrochemical projects

5.71. As regards industrial and petrochemical scaffolding projects, SGB argued that the regional scaffolding companies could not compete for the more complex projects (this applied also to the major scaffolding projects generally —see paragraph 5.65), nor could they individually undertake simultaneously more than one or two major projects. SGB acknowledged that competition from such companies was in total stronger in this than in the offshore sector; GKN was traditionally strong in the industrial and petrochemical project sector, as were several other companies which were not involved in scaffolding for other major construction projects. SGB therefore thought that the merged companies would not have a great deal of scope to increase prices arbitrarily in this sector. But they could pursue a different course, by reducing prices against selected regional competitors to remove them. Pricing of major contracts was done on a regional basis, and it was important to remember that some of the regional companies had had poor financial results in recent years. Regional competitors were more numerous in London and the South-East, but less so—and therefore more vulnerable if the merged companies adopted predatory pricing—elsewhere.

enable the combined companies to do much more than halt the erosion of their market share. BET did not believe therefore that the market share of the merged companies would result in any decrease in the level of competition in the industry. The number of operators was large; barriers to entry were not material, nor were there barriers to increasing scale; customers were very cost-conscious and some had considerable purchasing power. The cost advantage was with small firms. BET would not as a result of the merger have any opportunity for pricing free of the constraints of market forces, and hence it would not have the ability to increase returns through inflating prices. It aimed to increase its position in the market and its influence among the leading companies in the industry. But it was not aiming at a dominant position; nor was price leadership an objective; BET did not, in any case, regard these a realistic possibility. The merged companies would continue to face considerable pressure for greater efficiency and reduced costs from competitors with significant cost advantages over them. The nature of the market was such that there was no product differentiation in scaffolding which would give the merged companies any advantage over their competitors. BET elaborated on some of these points, as described in the following paragraphs.

The nature of the access market

The service offered to customers

5.25. Customers had three options: (*a*) they could contract for both the equipment and labour; (*b*) they could own or hire in the equipment, but contract for the necessary labour to erect it; or (*c*) they could own or hire in equipment and erect it themselves. There was no clear delineation between these three categories. Customers used access services according to their needs on particular jobs always bearing in mind relative costs. Although many building contractors owned their own access equipment, virtually all also contracted for or hired it. Some also hired equipment to third parties in competition with the scaffolding companies themselves. Similarly, customers had flexibility in choosing whether to hire or contract on any particular project. Most of BET's largest customers (many of whom had their own in-house capacity) in fact did both. The majority of the major scaffolding companies attempted to participate in both hire and contract activities, as did the majority of the smaller companies which were NASC members.

5.26. As well as flexibility in the basis on which customers were served, there was also flexibility of choice between methods of access. The more traditional scaffolding (ie tubes, fittings and boards) faced increasing competition from alternative methods of access. System scaffolding and light alloy access equipment were well-established substitutes. More recently competition had been growing from mechanical or hydraulic lifting platforms and hoists. BET considered that supplies of mechanical access equipment would grow significantly over the next half decade; suppliers of this equipment had adopted an aggressive attitude to competition. The development of mechanical access equipment had brought a new category of competitors into the access market, since such equipment was provided mainly by plant hire and engineering firms.

5.27. The merged companies would therefore have no advantage over their competitors in the product or service they could offer their customers.

The fragmented nature of the market

5.28. BET also argued that the supply of access equipment and services was very fragmented. Due to the nature of the services (primarily the lack of significant economies of scale) and the needs of customers, it was organised on a regional or local basis, whether or not suppliers were part of a larger group. Pricing and product mixes differed from location to location and depot to depot. Sales efforts were the responsibility of local management. In every location there would be a large number of access suppliers competing for the same business; some would be part of a group with national coverage, others would have a single depot, local firms enjoying a high reputation within their locality. Customers had a wide choice of suppliers within each locality, and consequently competition between local suppliers was intense, the benefit being reaped by customers through keenly priced services.

Ease of entry into the market

5.29. BET said that there had been a very large growth in number and significance of the smaller and medium-sized companies. The number of Customs and Excise registered specialist scaffolders had increased from 690 in 1979 to 1,370 in 1985, a figure which illustrated how fragmented the market had become, as well as how easy it was to enter it. BET gave the following reasons why entry was easy. The market was organised on a local basis. Product differentation was not a factor within the scaffolding segment of the access market. Capital requirements to establish a reputable scaffolding business were small, the main capital cost being the purchase of scaffolding equipment. Indeed, it was not necessary even to purchase the equipment since it could be readily hired from another company on a job-by-job basis. There was no legislative barrier or licensing of firms in the industry. Skilled labour was readily available if needed and could be hired on a self-employed basis. There were over 22,000 scaffolders registered with the Construction Industry Training Board (CITB). The premises needed to establish a firm were not large and could be leased.

5.30. BET also argued that small companies could then grow to a size where they were capable of handling large projects. It gave us a list of 20 firms which competed actively with it in London and the South-East. This showed that 13 of these were formed less than 15 years ago and 8 less than 10 years ago; their average annual growth in turnover had been 29 per cent. It also gave us a list of 49 medium-sized scaffolding companies which it said had grown significantly in the last five years, with turnovers in the region of £1 million per year. BET said that the reason for the advance of the smaller and medium-sized firms was the cost advantage that they had had over the larger operators in this period. BET's comparison of its costs with those of D & R, a typical local company, appeared to show that D & R enjoyed a cost advantage of at least 5 per cent due to lower labour costs and overheads. Some of the reasons why the large companies' costs are higher than those of the smaller ones, and especially the operators in the black economy, are mentioned in paragraph 5.17, including the cost of good training and safety standards, and the NASC recommended restriction of a maximum of 5 per cent of the labour force being self-employed.

5.31. BET said that the effect of these trends had been a noticeable reduction in the market share of the five largest companies. The situation also demonstrated that the conditions in the market in no way lent themselves to

stocks were limited, so that they could service only a small number of major projects. They did not have the technical expertise to undertake complex scaffolding, including support and shoring structures. SGB considered that these companies did not have the financial or technical resources to become national competitors nor was there any evidence that they had the ambition to do so, even in the South-East where the higher level of construction activity supported a comparatively large number of such companies.

The effects of the merger on competition in scaffolding contracts

Major scaffolding projects (over £50,000)

General comments

5.66. SGB argued that in the major projects sector the scaffolding contractor must work with the main contractor to design complex scaffolding structures which must be capable of alteration to fit in with the progress of work. The ability of the main contractor to complete the contract on time and within budget would depend to a material extent on the quality of service received from his scaffolding sub-contractor. Contractors knew that SGB, BET and GKN alone had the technical, financial, management and trained manpower resources in-house to tender for, erect and alter a large number of complex scaffolding structures simultaneously and to provide the flexibility and quality of service required. A number of the smaller companies had the resources to tender for the service of a limited number of contracts (see paragraph 5.65). However, in assessing such tenders, the main contractor had to be satisfied that his sub-contractor would not be overstretched by the contract to such an extent that the quality of service would be adversely affected. For the main contractor, the existence of competition between SGB, BET and GKN was a guarantee of a consistent quality of service.

5.67. SGB also drew attention to the pre-contract work undertaken for major scaffolding projects. For a particularly complex project, the views of the major scaffolding companies would be sought, and they might be asked to evaluate the technical problems and suggest solutions. The scaffolding company would make a preliminary assessment of the problems likely to be encountered. A full quotation would then be prepared, covering all the points on which the contractor needed to be satisfied about the scaffolding company's ability to undertake the project. This service might have to be done by designing a number of different scaffolding schemes for the various main contractors which were themselves competing for the construction project. If the proposals were unsuccessful, as happened in the majority of cases, the costs incurred had to be written off. SGB said that only BET, GKN and itself had the management, technical and financial resources to provide this degree of service simultaneously for the number of the major scaffolding projects that came forward.

5.68. SGB considered that small companies which could provide labour and equipment, but needed to use an independent scaffolding designer, could not provide effective competition for major projects, for the following reasons. The main contractor needed to be satisfied that the scaffolding sub-contractor had the necessary expertise immediately available, and had a proven track record in undertaking major projects. For complex projects, scaffolding sub-contractors were often required to demonstrate such capabilities before

5.62. Apart from the above six companies, two others should be mentioned as among the largest in the industry during the past decade:

(*a*) Cape, with a turnover of £7·5 million in 1983, was part of a group whose main interests were in fire protection materials and insulation. Its main scaffolding activity was on industrial and petrochemical sites. SGB doubted whether Cape intended to become a national competitor in the whole range of major projects, or to build a national chain of depots providing a comprehensive range of scaffolding equipment and services.

(*b*) LMS was part of a group of companies also producing scaffolding fittings, with a turnover in 1984 of £6·2 million. It had held a much more prominent position in the industry in 1975. Its scaffolding activities had not grown over the past 10 years, and the group had lost money in 1983 and 1984. SGB said it no longer regarded LMS as one of the principal scaffolding companies.

The effect of the merger on the present top-level structure of the industry

5.63. The number of principal competitors at the top of the industry had thus declined. SGB pointed out that the merger would then result in a company more than twice the size of the next largest, GKN, and more than eight times the size of the third and fourth largest companies competing in the whole range of access activities (and not just scaffolding), Palmers and Deborah. SGB argued that, whereas a series of acquisitions or mergers of companies of roughly equal size had created BET and GKN as the main competitors to itself as the once pre-eminent company, a new competitor to the merged companies (and to GKN) could not realistically be created, because the remaining independent companies were all smaller than those which had gone to make up the BET and GKN scaffolding presences.

5.64. SGB told us that in the period up to 1970 it had been able to act as price leader in the scaffolding market, particularly in the hire and sale of equipment; the contracts operations had always been fairly competitive. Since then, as competition from GKN and BET in particular had grown, SGB's profit margins had declined. Growth in the market had encouraged new entrants, and contributed to SGB's loss of price and market leadership; SGB had decided not to go for market share at any price, but to maintain profits. Others had, as already said, suffered losses. Although the market was now much more competitive, the merged companies would be bigger in relation to their main competitors than SGB itself had been in relation to its main competitors in 1975; therefore, SGB argued, it would in the long term be able to re-establish the price leadership that SGB had once had. The merged companies might in the short term pursue other courses of action, such as restricting supplies of equipment to the small scaffolding companies, or trying to remove some of their larger competitors. The purchasing power of the merged companies their ability to control the supply of scaffolding to the small projects sector, and the technical and financial resources available to support its activities in the major projects sector, all suggested that this market domination would increase with time.

The smaller, regional scaffolding companies

5.65. SGB then referred to a group of smaller scaffolding companies, with turnovers usually of less than £5 million per annum, usually private family companies, which knew their localities well. Their financial resources and

any large operator being able to exercise independent pricing, or in any way to influence price in the market otherwise than by greater efficiency and cost reduction. The average number of companies capable of providing competitive tenders for any particular job had increased substantially.

The cost-consciousness of customers

5.32. BET said that, although access costs represented only a small proportion (approximately 2 per cent on average) of total construction costs, customers were keenly sensitive to price differences. There was little customer loyalty. Commercial construction access work was won by tender, which allowed customers to compare prices directly. Smaller jobs would be sought by a wide range of firms. Most small customers, although not using the tender system, would shop around for the cheapest supplier. This, in part, explained the opportunities that existed for black economy operators. The number of companies available to tender for all jobs would not be materially affected by the merger. Further, many customers had the option of switching to in-house supply should the economics of scaffolding supply change; the power of those customers should not be underestimated.

Benefits to competition from the merger

5.33. BET considered that the effect on competition from the merger would in fact be beneficial. It would enable BET to introduce efficiencies and to rationalise, so that the combined companies would enjoy an overall reduction in operating costs that was likely to lead to increased price competition in the access market, which would benefit customers.

BET's comments on the major scaffolding projects sector (projects over £50,000)

Offshore scaffolding projects

5.34. BET acknowledged that the merged company would have a large share of this sector—approaching 50 per cent; but pointed out that, because the number of contracts was small, there were substantial fluctuations in the market shares over a period of years. BET did not consider that the share implied a level of market power which was, or might be, contrary to the public interest, for the following reasons:

(*a*) In 1985 there were 22 scaffolding companies actively working offshore, thus ensuring a high level of competition. As well as traditional scaffolding companies, offshore service groups were strongly represented. The market was an international one, with especially strong competition from American companies.

(*b*) These companies were competing in a relatively small market, both in terms of value (£11·2 million in 1984) and in numbers of contracts. There was no doubt that the competitors of the merged company would have the capacity—in terms both of resources and of skills—to compete effectively for all such contracts. A very high level of safety was demanded.

(*c*) The customers had significant purchasing power since each major oil company let only one or two contracts per year. The customers could easily ensure that the merged company could not behave in an anti-competitive fashion.

Industrial and petrochemical scaffolding projects

5.35. BET pointed out that the market share figures showed that, while BET was an important supplier in this sector, it was by no means the leading supplier: the other four main companies (GKN, Palmers, Deborah and Cape) had an average market share of 12 per cent which was in fact greater than BET's share of 11·6 per cent. Secondly, they showed that SGB with a market share of 6·4 per cent was not an important competitor in this sector. A considerable number of other companies held about one-third of the market. This information demonstrated that this was a highly competitive sector where SGB did not have a significant presence and where, BET contended, a merger between BET and SGB would not diminish competition at all.

Other large scaffolding projects

5.36. BET referred to SGB's view (published in *Building* in November 1985) that, in the largest scaffolding contracts, only the major companies competed, and that the merged company would be dominant. BET did not accept that argument. Its views on the industrial and petrochemical sector are in the preceding paragraph. So far as other large scaffolding projects are concerned, BET pointed out that evidence (available also to the Commission) showed that at least 46 companies had undertaken large contracts over a recent period. These companies were strong competitors in their own regions or localities, where as already explained the business was conducted (see paragraph 5.28). (This applied also to the similar group of smaller competitors mentioned in paragraph 3.35.) The Customs and Excise statistics showed 37 companies with a turnover of more than £1 million. BET argued that companies could grow to a size at which they could undertake large projects (see paragraph 5.30). In particular BET said that its share of this sector was very low—2·2 per cent; it did not compete at all for formwork, support work or large projects with a considerable design content, though it could compete for large townwork projects which required more limited design effort. Another reason for its small position in this market was that BET's access operation comprised a group of smaller companies put together, each with limited resources of design expertise (except for Industrial Services Ltd its major non-offshore projects company). BET also said that it has not been prepared to quote loss-making prices, as it thought had some of its competitors. This part of the market was very competitive and over-supplied, so that BET did not at present see justification for incurring extra costs to compete more strongly in this sector. The merger would not therefore have any appreciable effect on market shares in this sector. BET would indeed want to develop SGB's strength in it as part of the operations of the merged companies.

Small projects (under £50,000)

5.37. BET considered that the merger would not alter the competitive situation in this sector. The smaller companies would retain a cost advantage over the merged company and other large competitors. There was no reason to believe that market entrants would be fewer in number than in recent years. The merged company would find it difficult to do more than halt the slide in its combined market share. BET pointed out that a very large part of its turnover was on small projects; its average job size was under £1,000.

achieve real growth in earnings per share', SGB had concluded that the proposed merger would result in increased prices, and that BET was not looking to pass on to customers the benefits of any rationalisation and cost savings which might arise from the merger.

The effects of the proposed merger on competition in the access industry

The structure of the industry at top-levels 1975 to 1984

5.58. SGB gave us an analysis of the structure of the access industry, and its development over the past decade, together with the effects which it thought the merger would have on the structure of the industry, and through it on the supply of access services and equipment.

5.59. In 1975, SGB was clearly the largest company in the industry with a United Kingdom turnover of some £24 million (at then current prices). It was some 40 per cent larger than the next largest company, GKN Mills Ltd (it had been 20 per cent larger in 1970). There were four other companies (Kwikform Ltd, Stephens and Carter—the main BET scaffolding company, UBM, and Palmers) whose combined turnover was between one-third and one-half of SGB's. No other company was half as large as any of those four.

5.60. By 1984 there were three access companies of roughly equal size with turnovers in the £50 to £60 million range:

(*a*) SGB, which had grown organically;

(*b*) GKN Mills, which had acquired Kwikform; and

(*c*) BET, whose business had grown to a large extent by acquisition, including acquisition of UBM and a number of smaller companies.

5.61. GKN's and BET's acquisition had thus removed two of SGB's top five competitors in 1975, namely Kwikform and UBM. Below the three largest were three companies with turnovers in 1984 of around £15 to £16 million, ie only one-third the size of the top three. SGB argued that two out of the three had declined as competitive forces:

(*a*) Palmers, the third largest company in 1975 and now part of the BTR group had had a falling turnover since 1982, with substantial losses in 1981 to 1984.

(*b*) Acrow had gone into liquidation in 1984. Its scaffolding subsidiary was subsequently merged with Leada Ltd, an equipment hire company: the new company, Leada Acrow, supplies scaffolding equipment on hire only, ie it undertakes no contract work or sale of equipment so that, in SGB's view, its ability to compete with the three largest companies is now severely restricted.

(*c*) The third company, Deborah, had grown rapidly between 1975 and 1981 (partly due to a large offshore contract), but its turnover had declined in 1982 to 1984. It was stronger in the north of the country. SGB thought that Deborah alone of these three had the potential to become a more effective competitor, but doubted whether it had the resources to increase the scale of its activities materially.

5.53. BET would make every attempt to find alternative employment within the group. It guaranteed to safeguard all of the existing rights, including pension rights, of all SGB employees. BET also told us that existing joint agreements in SGB with the trade unions would be honoured if the merger took place.

The effects of the merger on imports

5.54. We discussed with BET the possible effects of the merger on the supply of steel tube, and whether it might lead to increased imports since as BET acknowledged it imported most of its requirements. BET thought that SGB obtained better terms from United Kingdom suppliers for its own larger requirements, whereas BET was able to buy its tubing more cheaply abroad. BET expected that the merged companies, with their increased total requirements, would be able to obtain still better terms in the United Kingdom; if so, it would use the domestic product which, all things being equal, BET preferred to do as being more convenient. The merger could therefore be expected to reduce imports.

Adopting new practices or equipment from abroad

5.55. BET suggested that the British access industry could benefit by adopting new practices or equipment developed abroad. It gave as an example the development of powered access in the USA. BET did not expect a dramatic or rapid trend towards powered access, but saw it as steadily replacing traditional scaffolding especially for industrial and petrochemical work. BET did not agree with the view that there was little to be learned from abroad.

B. The views of SGB

Introduction

5.56. SGB told us that, since its formation in 1920, its business had been built upon its ability to provide a competitive, reliable and efficient service. SGB's commitment to the access and support industry was illustrated by its record of product innovation and the leading role it had accepted in setting safety and training standards. SGB was a name both known and respected within the industry it served. BET by comparison was a conglomerate which had only recently identified construction as one of its main activities. Its access and support business had grown rapidly in recent years through a series of acquisitions.

5.57. Since 1983 BET had pursued a strategy of concentrating on a number of core activities, and thereafter had sought '. . . to concentrate more deliberately on market leadership' (Chairman's Statement, July 1985). Since 1982 BET had rapidly built up its construction division so that it was now one of the three largest access and support groups. The proposed acquisition of SGB would make BET the market leader in the access and support industry. SGB said that BET, in its most recent Report and Accounts, had drawn attention to the higher return on capital employed which BET obtained from those companies which had very strong market positions. BET's acquisition strategy was plainly directed to maximising its profits by ensuring it was the market leader in each of its chosen activities. In view of the statement by BET's Chairman in July 1985 that 'Our job is now to take full advantage of the much stronger position which we have attained over the past two and a half years, in order to

Effects of the merger on the hire and sale of access equipment

5.38. BET said that SGB and itself were by no means the only significant hirers of scaffolding equipment to other access supply firms. It gave us a list of 14 other firms which hired equipment to other access suppliers in large quantities, saying it was not an exhaustive list. (The list included GKN, Palmers, Leada Acrow, Deborah, and several construction companies.) BET hired substantial amounts of equipment to smaller scaffolding companies. Sixteen per cent of Stephens and Carter's hire turnover in 1985 was to these customers, a figure which had doubled in the last three years. BET hired out equipment to over 200 different scaffolding companies.

5.39. BET commented on an analysis of the geographical distribution of depots supplying a comprehensive range of equipment prepared by the Commission (from data supplied by SGB) and made available to it (and to SGB). BET said that the analysis indicated that, in the great majority of cases, existing BET and SGB depots were subject to real local competition. The majority of a depot's business would tend to be within 20 or 25 miles of the depot. The principal constraint on a depot's activities was the cost of transporting a gang of scaffolders from the depot to the site on a daily basis. Where that constraint was not present, as was obviously the case in a pure hire of materials, the effective operating radius of a depot was greater: depots within a 40-mile radius of a given depot competed with that depot for this type of business. Indeed, for large hirings, the distance from the depot was virtually irrelevant (for example, John Laing which had only one depot was willing to hire anywhere in the country if the job was of a suitable size). On that footing, the merger would not add to the small number of areas which were at present served by only a few suppliers. On the contrary, of the 125 depots in the analysis, 117 were subject to competition by three or more suppliers independent of SGB and BET.

5.40. BET said that, in addition to the more important depots and suppliers discussed above, scaffolding equipment was available from numerous other sources on a more localised basis. For example, in the 32 locations where BET and SGB had a depot in fairly close proximity there were some 635 companies advertising the hiring of scaffolding equipment. The fact that those suppliers might not have quite the breadth of range that the larger companies could offer was immaterial. There were numerous plant hire firms from which, for example, mechanical or powered access equipment could be obtained; such firms actively competed in the market for the hire of access equipment. Hirers of access equipment were, therefore, free to obtain their requirements either from one or from several companies or depots, as their own commercial judgement dictated; there was no need to obtain all their supplies from one company or depot. The scale of the business should not be overlooked; the average annual turnover in hire and sale to other companies in the access industry for each of BET's depots was at present £90,000.

5.41. In the light of the above evidence about the number and size of alternative suppliers BET said that it did not believe that companies who hired from BET or SGB would in any way be disadvantaged by the merger. The merged company would only lose business if it increased its prices.

5.42. We asked BET whether (as had been suggested to us) it might reduce the range of equipment offered by the merged companies, including for example by

stopping supplying Cuplok in favour of its own systems scaffolding. BET said it intended to maintain, and indeed expand, the range of equipment which the merged companies would have available; nor did it intend to drop Cuplok.

5.43. BET also commented on SGB's published remark that the merged companies would cease hiring equipment to small suppliers of access services. It said that the hiring of equipment was an important and integral part of its access operations. BET had always supplied a significant volume of equipment on hire to other contractors and saw that activity as one which did, and would continue to, form an important part of its access activities. BET added that refusal to supply would in any case simply leave the field open to its many competitors in hire and sale.

The effects of the merger on competition in the supply of ladders

5.44. BET said that this part of the merger was ancillary to the primary aim of merging BET's and SGB's scaffolding interests. Each company's turnover was about £7 million per year. It did not expect that any significant cost advantage could be generated since all the current production units would be maintained. Some limited overhead savings in the region of £0·5 million should be possible in the two to three-year period following the merger; economies in the purchasing of materials would also be sought.

5.45. The retail market was characterised by customer purchasing power, with 10 customers accounting for 50 per cent of BET's output sold to third parties (some 35 per cent of its output was used internally). Smaller customers formed purchasing groups to increase their buying power. The major customers typically split their purchasing between three or four separate suppliers. The number of competitors had been growing steadily since 1979 to a current level of about 30 significant suppliers, and competition had intensified considerably in this period. Imports would also be an effective deterrent against any attempt by the merged company to assert its market power. BET said that barriers to entry were low. Other joinery and metal fabricating companies could easily retool and enter the market.

5.46. BET considered that the merged companies' market shares, of some 30 to 35 per cent in each of the trade and retail sectors, would not give it any significant competitive advantage in this minor area of its activities, or materially diminish the purchasing power of the DIY multiples in the retail sector. There were no great profits to be made in this small sector. There would be some slight benefit to the public interests through improving efficiency.

5.47. We pointed out to BET that, at the time of its offer to acquire SGB, it had said it was prepared to sell SGB's ladder manufacturing business as this, combined with that of BET Plant Services, was the only area where the merged company would have a commanding market share. BET replied that its position then was that, if the OFT found that the supply of ladders was an area of concern to them in the proposed merger, BET would be prepared to dispose of SGB's ladder business, because it was not the main reason for the merger; but BET did not believe that this matter was a real cause for concern.

The effects of the merger on competition in the supply of scaffolding fittings

5.48. BET argued that the market could be divided into two segments, one for pressed fittings and the other for forged fittings. Forged fittings were considered both stronger and safer than pressed fittings. Due to higher material and production costs they were about 20 per cent more expensive, and were typically used in technically more demanding situations. The two production techniques were not compatible, and customers had historically demonstrated a marked preference for one or the other in specific applications. BET saw the pressed and forged fittings as essentially two separate markets. There were a number of strong competitors, notably Arthur Edge & Co, with a turnover of approximately £2 million, and Press Components, with £1·3 million.

5.49. BET's turnover in forged fittings in 1984 was some £1·4 million, representing 16 per cent of the forged fittings market. Approximately 50 per cent of this turnover was sold in-house to be used in BET's hire and contract operations. This turnover had been declining, and BET expected it to continue to decline, because of the trend towards pressed fittings. This was now a quite unimportant part of BET's business. SGB's turnover of £3·2 million in 1984 in pressed fittings manufacture represented 52 per cent of the pressed fittings market. £600,000 of these fittings were sold to BET each year. SGB met its considerable demand for forged fittings by importing. This illustrated the problem of import penetration, which was limited to forged fittings and had been growing strongly over the last three years. BET estimated that imports amounted to £2 million of the total market of some £12 million or more. This had had a considerable impact on the profitability of the British forged fittings manufacturers (including BET).

5.50. It was not BET's intention and, indeed it was not possible, to combine the two companies. The two manufacturing processes were distinct and incompatible. Customer preference for the two products was distinct in particular applications. Bringing the two companies under common ownership would not impede competition.

The effects of the merger on employment

5.51. BET said that the depot rationalisation programme would not lead to significant redundancies. The contracting workforce was tied directly to the volume of work being performed. It would be uneconomic for the group to merge depots where any significant loss of work resulted, and if there was no loss of work there would be no redundancies in the contract workforce. There might be a few redundancies (perhaps up to 20 staff) in depot management, spread over the next two to three years and with wide geographic dispersion; these were expected to be accommodated through natural wastage. Rationalisation might also result in redundancies in one or other of the two Head Offices in Newbury and Mitcham; the numbers of redundancies would be around 125, spread over two to three years, and a significant proportion of this could be achieved through natural wastage. The bulk of any redundancies would occur amongst white collar workers in either Mitcham or Newbury. The figure of 125 represented 1 per cent of the total workforces of SGB and BET Plant Services in the United Kingdom. Disturbance allowances would be paid to any staff required to move.

5.52. BET strongly believed that at least this level of redundancy would occur anyway if SGB and BET did not merge, and the major companies continued to lose market share. The depot rationalisation that had taken place in 1985 alone in SGB had probably resulted in more redundancies than the proposed merger would imply.