

RECKITT BENCKISER/K-Y BRAND MERGER INQUIRY

Summary of hearing with Lovehoney on 27 February 2015

The proposed merger

1. Lovehoney said it did not have any major concerns about the proposed merger between Durex personal lubricants (owned by Reckitt Benckiser (RB)) and K-Y jelly (owned by Johnson & Johnson (J&J)) because RB was already dominant in the market. Lovehoney said RB already had long-standing relationships with high street pharmacies and grocery retailers so it would not make much difference if RB also owned the K-Y brand.
2. Lovehoney said it did not think that the merger would change its position in relation to retailers.

Lovehoney's personal lubricants – manufacturing and supply

3. Lovehoney said it supplied personal lubricant products with various names including its Lovehoney brand (currently only available from its website), Swoon personal lubricants (supplied to Boots), and the 50 Shades of Grey personal lubricants.
4. Lovehoney said it did not manufacture personal lubricants in-house but contracted third parties to manufacture the products.
5. Lovehoney said it started retailing personal lubricants in 2002 and began making its own-brand personal lubricants around five or six years ago.
6. Lovehoney said its personal lubricant business had a yearly turnover of [REDACTED].
7. Lovehoney said that, in the UK, it was mainly specialist adult retailers and websites that stocked its 50 Shades of Grey products. [REDACTED]
8. Lovehoney said it sold its Swoon personal lubricant to Boots and Amazon.
9. Lovehoney said it had got its Swoon personal lubricants stocked in Boots through personal contacts and by fitting in with what Boots wanted. Lovehoney worked with a sex expert, Julie Peasgood, to develop the Swoon brand and this had met Boots' interest at the time in expanding its range of sexual wellbeing products. Lovehoney said that Swoon products had launched in Boots in November 2012.

10. Lovehoney said it did not know if Boots had replaced other personal lubricants when it started to stock Swoon or if it expanded its shelf space to include these products.
11. Lovehoney said its relationship with Boots was a simple supplier/customer relationship.
12. Lovehoney said it paid for any promotions of Swoon products in Boots shops. Lovehoney said it thought it had done three promotions of Swoon products in Boots since November 2012, including a current promotion which provided a price discount of 25%.

Lovehoney's negotiations with RB and J&J

13. Lovehoney said it sold Durex and K-Y personal lubricants on its website. Lovehoney said it currently sold 29 Durex products in total, which included personal lubricants, condoms and sex toys.
14. Lovehoney said it had purchased Durex personal lubricants directly from RB but now bought them from several UK distributors, depending on who had stock.
15. [✂]

Closeness of competition

16. Lovehoney said K-Y warming jelly was a close competitor to Durex products but on the whole K-Y and Durex personal lubricants were not close competitors. Lovehoney said it thought K-Y jelly had struggled a bit because it had a medical image and was associated with gay male sex from the 1980s.
17. Lovehoney said J&J had tried to launch a K-Y product for sexual pleasure in the UK but this had not been successful and K-Y warming jelly and other similar products were no longer widely available.
18. Lovehoney said it saw K-Y jelly as more of a sexual dysfunction product than a pleasure enhancing product. Lovehoney said it did not sell any other brands that competed with K-Y jelly because Lovehoney was focused on pleasure enhancement. Lovehoney said that K-Y jelly was a strong but not particularly big brand in terms of sales.
19. Lovehoney said that its own-brand ranges were the closest competitors to Durex personal lubricants but its website sales were slightly skewed because it cross-sold its own brand personal lubricants with sex toys it sold. As such,

more people bought Lovehoney personal lubricants than Durex personal lubricants.

20. Lovehoney said that if a customer did not care what brand of personal lubricant they bought and wanted a good price, they would buy Lovehoney personal lubricant, but if they knew the Durex brand, they would buy Durex.

Lovehoney's retail of personal lubricants

21. Lovehoney said it also sold Liquid Silk personal lubricant, which competed with Lovehoney and Durex personal lubricants. Lovehoney said that Liquid Silk (produced by Bodywise) was a very popular product. Lovehoney also said it stocked Edge personal lubricant (another of its own products) and ID Glide personal lubricant.
22. Lovehoney said that in total it sold 188 different personal lubricants. Within Lovehoney's top 20 best-selling personal lubricants, there were four Liquid Silk personal lubricants, two Durex personal lubricants, one ID personal lubricant, and the rest were its own personal lubricant products.
23. Lovehoney said it was able to supply so many different personal lubricant products with an overall turnover of [£] because some products were very specialist. Lovehoney said it sold very few units of the more niche-type brands. Lovehoney said it carried inventories for all 188 products at its warehouse in Bath and did same day dispatch on orders. Lovehoney said that with many suppliers it could just buy a dozen or fewer items.

Negotiations with grocery retailers and pharmacies

24. Lovehoney said it wanted to get its products stocked by more high street retailers but there were many challenges. Lovehoney said that at the very basic level, retailers wanted to know why they should get rid of an existing personal lubricant product and replace it with a new one, and if the new product would make them more money.
25. Lovehoney said that it could be hard to persuade retailers to stock a new brand of personal lubricant if they had a good, long-standing relationship with Durex, and Durex was spending lots of money on TV advertising and in-store promotions. Lovehoney said a supplier needed a brand name that customers recognised to get listed in supermarkets, and supermarkets would ask suppliers for details of how they would promote brands.
26. Lovehoney said it might help a potential supplier to get listed in supermarkets if they could provide a wider range of products than just personal lubricants.

Lovehoney said its Swoon range for Boots included massage oil, candles, condoms and personal lubricants.

27. Lovehoney said it was a key objective [✂].
28. Lovehoney said that there might be room for a new personal lubricant brand to enter the high street. Lovehoney said this could be a more gift-orientated personal lubricant or a brand aimed at younger people.
29. Lovehoney said it did not think the merger would help it to get stocked in high street retailers, but it did not think it would make it any more difficult in the short-term because the range of K-Y products available in the UK was medically branded and marketed and Lovehoney's products were marketed for sexual happiness.
30. Lovehoney said it was of the view that RB could be aggressive in securing shelf-space in supermarkets and pharmacies as a result of personal insights. Lovehoney said it did not have any specific examples of trying to sell products to a retailer and being declined because retailers said RB owned the shelf space already.
31. Lovehoney said its shelf space for Swoon products in Boots had been reduced. Lovehoney said it had started with eight or nine Swoon products in Boots but now had five or six products. Lovehoney did not know which other products had replaced the Swoon products that had been delisted by Boots.

Competition between sales channels

32. Lovehoney said it did not know the extent to which consumers who bought personal lubricants in supermarkets and pharmacies also bought personal lubricants online. Lovehoney said it thought that increasingly consumers would buy personal lubricants wherever was most convenient.
33. Lovehoney said that online was a more natural place for people to buy personal lubricants because it was more discreet and private.
34. Lovehoney said that sometimes purchases of personal lubricants in supermarkets could be introductions to this product category, and after consumers made these initial purchases they would then go online to find other products.
35. Lovehoney said a strong online presence could help to get a personal lubricant brand stocked in supermarkets.

Counterfactual

36. Lovehoney said it did not know what would have happened to K-Y jelly if RB had not bought the brand globally. Lovehoney said that, in the past, other companies that were big in personal lubricants abroad, such as Church & Dwight, had tried to launch condoms in the UK but not personal lubricants. Lovehoney said that perhaps J&J had failed or had no plans for K-Y in the UK because Durex was too powerful a brand.
37. Lovehoney said that Church & Dwight had tried to launch Trojan condoms in the UK a few years ago but these were no longer widely available. Lovehoney said it sold Trojan condoms but bought these from America.

Margins and returns

38. Lovehoney said its best-selling personal lubricant, Lovehoney Enjoy water-based lubricant, retailed for £4.99 per bottle, plus VAT, and it bought it for [REDACTED].
39. Lovehoney said its margins varied when it sold its products through retailers. Lovehoney said that Boots [REDACTED].

Segmentation of personal lubricants

40. Lovehoney said it thought vaginal moisturisers such as Replens or 'Yes' products were like K-Y jelly.
41. Lovehoney said it sold 'Yes' personal lubricant. Lovehoney said 'Yes' personal lubricant was packaged in a way that made it look more cosmetic than clinical, so while it was a moisturiser it was treated more like a cosmetic.
42. Lovehoney said 'Yes' personal lubricant could be used for similar purposes to K-Y jelly.