

RECKITT BENCKISER/K-Y BRAND MERGER INQUIRY

Summary of hearing with Superdrug on 20 February 2015

The proposed merger

1. Superdrug said it did not have 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 they were different products. Superdrug said it placed Durex personal lubricants in its sexual enhancement category and positioned these with condoms and other, similar products in its stores. Superdrug said it placed K-Y jelly in its woman's health category because it was more for women's health issues such as vaginal dryness.

Superdrug's negotiations with RB and J&J

2. [✂]
3. [✂]
4. [✂]
5. [✂]
6. [✂]

Pricing and promotions

7. [✂]
8. Superdrug said its online prices for personal lubricants were the same as its prices in stores. However, it might not always have the same promotions online as in its stores and vice versa.
9. Superdrug said it did not promote K-Y jelly but promoted Durex and own-label personal lubricants. It had also promoted Ann Summers personal lubricants in the past. [✂]
10. [✂]
11. [✂]

Segmentation of personal lubricants

12. Superdrug said it considered K-Y jelly as more of a moisturiser than a sexual enhancement product. It therefore saw products such as Replens and Balance Activ as competitors for K-Y jelly rather than personal lubricants aimed at sexual enhancement.
13. Superdrug said its view of K-Y jelly was informed by category insights from some of its suppliers. [✂]
14. Superdrug said that in all its stores K-Y jelly was positioned within the women's health area and Durex personal lubricants were positioned within the sexual enhancement area, alongside condoms.

Closeness of competition between own-label personal lubricants, Durex and K-Y

15. [✂]
16. Superdrug said that its own-label personal lubricants competed more with Durex personal lubricants because they fitted into the sexual enhancement category.
17. [✂]
18. [✂]
19. [✂]
20. [✂]
21. [✂]
22. [✂]
23. [✂]
24. Superdrug said that when it had introduced new own-label personal lubricant products in the past, it had not noticed any significant decline in sales of other brands. It said that over the past few years the personal lubricants market had been growing, with more people comfortable buying personal lubricants. [✂]
25. [✂]
26. [✂]
27. [✂]

Closeness of competition between other personal lubricants, Durex and K-Y

28. Superdrug said it had not noticed a huge change in the sales of other personal lubricants when it had introduced Ann Summers personal lubricants. [REDACTED] because there were only two lubricants in the range.
29. Superdrug said it had exclusive rights to sell Ann Summers personal lubricants. These were not available in other pharmacies or grocery retailers.

Competition between sales channels

30. Superdrug said it took account of the market when setting its prices for personal lubricants. It considered the prices of its competitors – chemists, pharmacists, grocers and other ‘bricks-and-mortar’ retailers – to aid its decisions on pricing.
31. Superdrug said it [REDACTED] It would look at online prices but was most interested in bricks-and-mortar prices.
32. [REDACTED] Superdrug said if customers bought such products online now, it was likely that they may always buy them online, and it was not aware of much switching from bricks-and-mortar to online purchases.
33. Superdrug said it did not consider online sales of personal lubricants to be a competitive threat. [REDACTED] Superdrug said it expected its online sales of personal lubricants to increase slightly, but online sales in this category were low compared to its other online sales. [REDACTED]

Impact of the merger on independent pharmacies

34. Superdrug said that in the main independent pharmacies had a wider offer of products in the women’s health category so would have other ranges of vaginal moisturisers that it did not stock. Superdrug said that Durex was probably the main sexual-enhancement brand in independent pharmacies.
35. Superdrug said in its opinion it did not think the merger would have a huge impact on independent pharmacies because it concerned different types of product.

Counterfactual

36. Superdrug said that if RB had not bought the K-Y brand, it thought K-Y may have been retained by J&J or sold to another company. Superdrug said it did

not know if it would be difficult to find another buyer but said K-Y was quite a well-known brand with a lot of heritage.

Planned purchase versus impulse purchase

37. Superdrug said it did not have many insights into whether people planned to buy personal lubricants or bought them on impulse, but it thought these were more planned purchases. When there was more marketing for Durex personal lubricants such as around Valentine's Day people might purchase them on impulse, but on the whole these were planned purchases, especially in the women's health category.
38. Superdrug said that if a company approached it with a proposition to stock a new personal lubricant brand, it would first discuss if the brand was within the sexual enhancement or women's health categories and how the brand differentiated from other brands on the market. [✂]
39. Superdrug said it had decided to stock Ann Summers personal lubricants because it thought the brand would resonate well with its customers and it was in line with Superdrug's strategy.
40. Superdrug said many people came to it with propositions for stocking new personal lubricant products. Different suppliers approached it with different brands for both the women's health and the sexual enhancement categories.
41. [✂]
42. Superdrug said that it would be interested in stocking a new brand if the supplier was planning to market it on television because this marketing would drive huge awareness. For women's health products, Superdrug would look for in-store support from the supplier for things like posters.
43. [✂]