

RECKITT BENCKISER/K-Y BRAND MERGER INQUIRY

Summary of hearings with Ansell

Summary of hearing on 4 March 2015

The proposed merger

1. Ansell said it opposed the proposed merger between Durex personal lubricants (owned by Reckitt Benckiser (RB)) and K-Y jelly (owned by Johnson & Johnson (J&J)) because it involved a competitor, RB, who was already a significant player in the market, getting bigger. Ansell said post-merger, RB would have 95% market share of the lubricant market and this would make competition more difficult, especially for smaller companies. Ansell said small companies could find it difficult to secure retail listings and compete with RB because RB could offer bundle commercial terms and trade promotions.
2. Ansell said the proposed merger could negatively affect its potential to grow its personal lubricant business in the UK, and also raised concerns about its existing condom business in the UK. Ansell said there was a relationship between people buying condoms and personal lubricants.
3. Ansell said it saw the two key players in the personal lubricant market – Durex and K-Y jelly – being owned by RB as a barrier to entry in the market, in terms of access to retailers' shelf space and also in trade negotiations.

Ansell's personal lubricant business in the UK

4. Ansell said it launched a bottle of personal lubricant in the UK in around 2008/9, which was listed in [a major retailer] and a couple of other retailers. Ansell said that by 2010 this product was only listed in [one smaller retail chain]. Ansell said distribution of the product declined because it did not have the economies of scale to make it commercially viable and [☒]. Ansell said the economies of scale related to manufacturing and a strong trading agreement with retailers. Ansell said retailers sometimes wanted to work only with big suppliers.
5. Ansell said supplying a range of products within the sexual well-being category could help a supplier get stocked by a retailer. Ansell said supplying condoms as well as personal lubricants could help to get listed by a retailer.

6. Ansell said the personal lubricant product it introduced in 2008/9 was water-based. It contained similar ingredients to Durex water-based personal lubricants.
7. Ansell said that the amount of shelf space allocated for a brand of personal lubricants was important. Ansell said that when one brand dominated shelf space with a number of stock keeping units (SKUs) it created challenges for other brands.
8. [☒]

Ansell's supply of personal lubricant products

9. Ansell said it supplied personal lubricants in other countries. Ansell said it offered different ranges in Australia, China, France, the US, and Latin America. Ansell said it hoped to expand its range of personal lubricants.
10. Ansell said it only supplied one personal lubricant product in the UK at present: a 10 millilitre personal lubricant sachet available through the NHS. Ansell said this product had very small sales in the context of the total UK lubricant market.
11. Ansell said it was launching new personal lubricant products in the UK in March 2015. Ansell said the products had been delivered to Boots' depot two weeks ago and would be available in Boots' stores in the next two weeks.
12. Ansell said it had approached Boots with a proposition to supply two personal lubricant products. Ansell said negotiations with Boots had taken several weeks before agreement was reached to launch the range in March 2015.
13. Ansell said its new personal lubricant products were designed to compete across the full range of personal lubricants. Ansell said there would be some points of difference from other personal lubricants in terms of packaging.
14. [☒]
15. [☒]
16. Ansell said it did not know if its new personal lubricant products would be replacing existing SKUs of personal lubricants in Boots or other products.
17. [☒]
18. Ansell said that in presenting its new personal lubricant products to retailers it had stressed consumer choice and the unique selling points of the products. Ansell said it thought it could offer consumer choice by offering a silicone

product at a non-premium price. Ansell said both its new products would be offered in 80-millilitre bottles with a recommended retail price (RRP) of £9.99.

19. [☒]
20. [☒]
21. [☒]
22. [☒]
23. Ansell said it was concerned that if the merger went ahead in the UK, RB could expand the range of K-Y jelly products in the UK which could block Ansell's access to retailers' shelf space.
24. Ansell said that it was particularly concerned about the merger in the UK because Durex and K-Y were dominant brands but elsewhere in Europe and the US Durex and K-Y were less dominant.
25. Ansell said that if the merger did not go ahead in the UK it thought K-Y jelly would not change because it occupied a certain position in the market. Ansell said K-Y jelly offered consumers the choice of a more medical personal lubricant.
26. Ansell said the volume of sales of personal lubricants in the UK had been declining for a number of reasons. One reason was RB changing the size of its Durex personal lubricant bottle from 50 millilitres to 60 millilitres which resulted in few bottles being sold. Ansell said another reason could be a migration of customers from retail stores to online purchases, however there was no online sales data available to Ansell.
27. Ansell said it would supply its new personal lubricant products online as well as in stores but its experience showed that the online market was small so online sales were not a main part of its plan.
28. [☒]
29. Ansell said that other personal lubricant products competed with K-Y jelly too but on price rather than in terms of packaging and message. Ansell said other Durex products, retailers' own-label, Pasante, and Ann Summers' personal lubricants competed with K-Y jelly on price.
30. Ansell said that if a consumer had a medical reason for buying a personal lubricant, they would buy K-Y jelly or Durex Sensilube on the basis of packaging but if they wanted a pleasure enhancing product they could consider a variety of brands and may then decide on price. Ansell said pricing

for personal lubricants ranged from £2.00 to £5.00/6.00 per bottle, and in the enhanced pleasure segment, they ranged from £6.00 to £15.00 per bottle.

Segmentation of personal lubricant market

31. Ansell said that the personal lubricant market could be broken down into three segments: medical products; water-based products for enjoyment; and silicone-based products for enjoyment. Ansell said that when a consumer visited a retailer they could choose to buy a personal lubricant for a medical reason, for pleasure enhancement, or for a long-lasting effect.
32. Ansell said its new personal lubricant products fell into the segments of water-based products for enjoyment and silicone-based products for enjoyment. Ansell said it was trying to offer the consumers choice with its new personal lubricant products.

Ansell's interest in the K-Y brand

33. Ansell said it had been interested in purchasing the K-Y brand when it became available but ultimately did not make a bid.

Margins and returns

34. Ansell said the cost of producing lubricants varied by supplier depending on in-house or third party manufacture. [☒] Ansell said it could not say how much it cost to produce its personal lubricants due to commercial confidentiality.
35. Ansell said that costs of producing personal lubricants would vary depending on the ingredients within the products. Ansell said that silicone formulations were more expensive to produce than the water-based formulations. In addition, adding other ingredients like glycerine for warming could increase costs. Ansell said the cost of transport was not a big factor.
36. Ansell said cost alone was not a barrier to its entry in the personal lubricant market but limited retail shelf space was a barrier. Ansell said that if a retailer had limited shelf space for personal lubricants, and most of this shelf space was filled with products from one supplier that satisfied the retailer's needs, then a retailer might not want to stock another brand.
37. Ansell said if the merger happened and the prices of RB personal lubricants increased, this would not affect its new personal lubricant products because these have a higher recommended retail price than other personal lubricants

which sold for £2.00 to £5.00/£6.00. Ansell said its products would offer choice to consumers because of their unique selling point. [☒]

38. [☒]
39. Ansell said if the merger went ahead, RB would be so dominant in the market that it could increase prices for personal lubricants. RB could dictate the speed of pricing in the market because of high customer loyalty to Durex and K-Y personal lubricants.
40. Ansell said that at present K-Y jelly was competing with Durex personal lubricants in terms of brand loyalty and competitive pricing but this competition would be lost if the merger went ahead.

Summary of hearing on 15 April 2015

41. Ansell said its personal lubricant products were now available in [☒] Boots' stores [☒].
42. [☒]
43. Ansell said its personal lubricant products would also be available in [☒] Superdrug stores from May 2015. [☒]
44. [☒]
45. In response to a question as to whether pharmacies may be perceived as a gateway to supplying personal lubricants to grocery retailers, Ansell said there was more shelf space available in pharmacies than in grocery retailers, [☒].
46. Ansell said that it had decided to supply personal lubricants in the UK alongside its Skyn condom proposition, but had faced blockages in supplying personal lubricants because shelf space was already taken up with the Durex and K-Y brands of personal lubricant. [☒]
47. Ansell said it was concerned that if the merger between RB and the K-Y brand went ahead, it could further limit shelf space for other personal lubricant brands. Ansell said that, at present, there was a good/wide range of Durex and K-Y personal lubricant SKUs in pharmacies and grocery retailers, and, if the range of K-Y products was to increase slightly following a merger, it might mean an even smaller amount of shelf space for other brands. [☒]
48. [☒]
49. [☒]

50. [☒]
51. [☒]
52. [☒]
53. [☒]
54. [☒]
55. Ansell said any incentive on the part of the retailer to introduce another personal lubricant brand depended on how the retailer saw the market. Ansell said some retailers had their own-label products [☒].
56. Ansell said in the UK condom market there was excellent choice and value for money for consumers because Ansell and other players are stronger suppliers, in that it (and others) have greater market share and therefore greater reach. Ansell said it had 14.4% share of the condom market compared to Reckitt Benckiser's 78.2% and others at around 7.4%. Ansell said its strength in the condom market was shown by the level of promotions and competitive pricing activity in the market. Ansell said it did not have such strength in the personal lubricants market and it would be a challenge to bring new products into the personal lubricant market if, post-merger, one supplier had 95% share of the market. Ansell said it believed there may be less promotional activity on lubricants versus condoms in the UK, meaning less advantage for the consumer.