



Australian
Competition &
Consumer
Commission

19 January 2011

Statement of Issues — Sleepyhead - proposed acquisition of Sleepmaker and Dunlop Foams from Pacific Brands; Pacific Brands - proposed acquisition of Wonderlay from Sleepyhead

1. Outlined below is the Statement of Issues released by the Australian Competition and Consumer Commission (ACCC) in relation to:
 - the proposed acquisition of the Wonderlay underlay business by a subsidiary of Pacific Brands Limited (**Pacific Brands**) from Wonderest Limited (trading as **Sleepyhead**); and
 - the proposed acquisition of Pacific Brands' Sleepmaker bedding business and Dunlop Foams foam business by a subsidiary of Wonderest Limited(together, the **proposed acquisitions**).
2. A Statement of Issues published by the ACCC is not a final decision about a proposed acquisition, but provides the ACCC's preliminary views, drawing attention to particular issues of varying degrees of competition concern, as well as identifying the lines of further inquiry that the ACCC wishes to undertake.
3. In line with the ACCC's *Merger Review Process Guidelines* (available on the ACCC's website at www.accc.gov.au) the ACCC has established a secondary timeline for further consideration of the issues. The ACCC anticipates completing further market inquiries by 4 February 2011 and anticipates making a final decision on 24 February 2011. However, the anticipated timeline can change in line with the *Merger Review Process Guidelines*. To keep abreast of possible changes in relation to timing and to find relevant documents, market participants should visit the Mergers Register on the ACCC's website at www.accc.gov.au/mergersregister.
4. A Statement of Issues provides an opportunity for all interested parties (including customers, competitors, shareholders and other stakeholders) to ascertain and consider the primary issues identified by the ACCC. It is also intended to provide the merger parties and other interested parties with the basis for making further submissions should they consider it necessary.

Background

5. In November 2010, Sleepyhead provided a submission to the ACCC seeking clearance from the ACCC of its proposed acquisition of Pacific Brands' bedding and foam businesses (**Sleepmaker** and **Dunlop Foams** respectively). This submission also relates to another proposed acquisition, that of Sleepyhead's underlay business, Wonderlay, by Pacific Brands.
6. On 1 November 2010 the ACCC commenced its review of the proposed acquisitions at the request of Sleepyhead.

The parties

Sleepyhead (Wonderest Limited)

7. Wonderest Limited is a New Zealand registered and Australian domiciled company. In this Statement of Issues Wonderest will be referred to as its principal trading name, Sleepyhead.
8. Sleepyhead is a manufacturer of bedding and carpet underlay in Australia. Sleepyhead will commence the manufacture of flexible polyurethane (**PU**) foam shortly. PU foam is used in the manufacture of bedding and carpet underlay.

Foam

9. Late in 2010 Sleepyhead completed building a PU foam manufacturing plant in Deer Park, Victoria. This plant is capable of producing significant volumes of PU foam using the environmentally superior carbon dioxide (CO₂) as a blowing agent. Through this plant, Sleepyhead will supply all of its internal foam requirements for each of its bedding manufacturing operations and will be in a position to supply PU foam to third parties.

Bedding

10. Sleepyhead currently operates bedding manufacturing facilities in Brisbane, Melbourne and Perth.
11. Sleepyhead commenced the manufacture of bedding in Australia approximately 12 years ago, having previously exported beds to Australia from New Zealand. In New Zealand, Sleepyhead has bedding manufacturing facilities in Auckland and Christchurch.
12. Sleepyhead supplies a full range of bedding products, including mattresses, bases and bunk beds, across different price points. The ACCC's review has focussed on mattresses as this is the key area of overlap between the merger parties. Sleepyhead's mattress sales are predominantly in the budget to low price categories, and are sold mainly to national retailers such as Super Amart and Beds R Us.
13. Sleepyhead offers a range of brands including *Wonderest*, *Posture Perfect*, *Best 4 Rest* and *Sensorzone*.

Underlay – ‘Wonderlay’

14. Sleepyhead manufactures foam carpet underlay under the ‘Wonderlay’ business name at its plant in Brisbane. Sleepyhead mainly supplies its PU foam carpet underlay products through sales agents to individual retail stores across Australia.

Pacific Brands Limited

15. Sleepmaker, Dunlop Flooring and Dunlop Foams are businesses of Pacific Brands Limited, which is listed on the Australian and New Zealand Stock Exchanges.

Foams – ‘Dunlop Foams’

16. Dunlop Foams is a large manufacturer, converter and distributor of PU foam in Australia, with manufacturing and conversion plants in Brisbane, Sydney, Melbourne and Perth, and conversion only plants in Hobart and Adelaide. Dunlop Foams currently supplies all of Sleepmaker’s foam requirements and also supplies significant volumes of foam, including specialty foams, to third parties.

Bedding – ‘Sleepmaker’

17. Sleepmaker is one of the largest bedding manufacturers in Australia, with manufacturing facilities in all states except South Australia and the Northern Territory. Sleepmaker supplies mattresses across all price categories.
18. Sleepmaker’s brands include *Sleepmaker*, *Simmons* and *Dunlopillo*. Its main customers include David Jones, Forty Winks, Harvey Norman and Myer.

Underlay – ‘Dunlop Flooring’

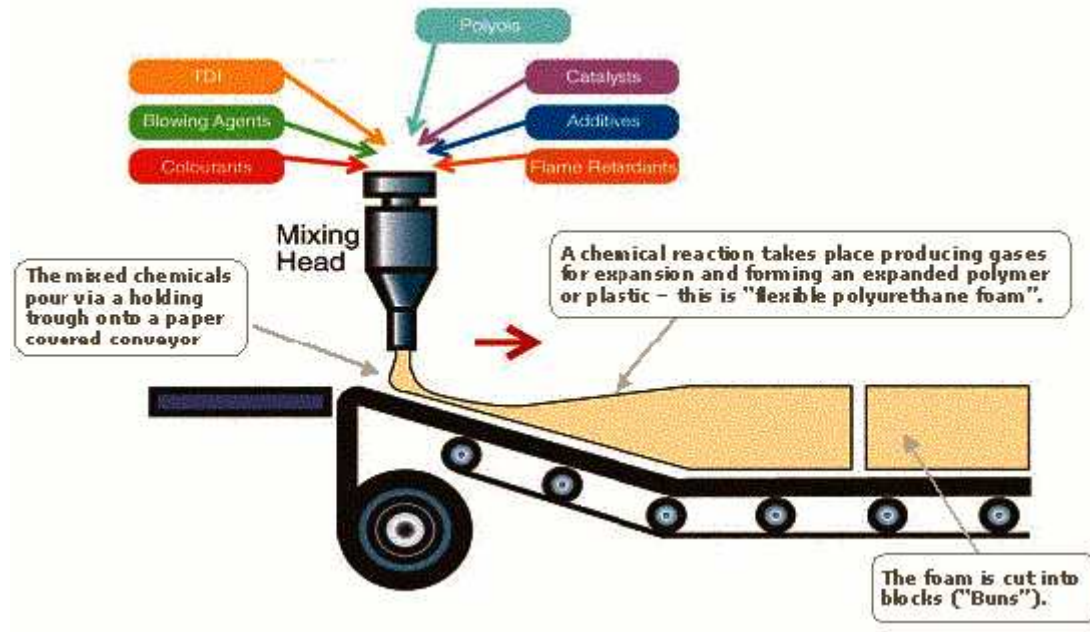
19. Dunlop Flooring manufactures and supplies PU foam carpet underlay (and some rubber carpet underlay) products from its manufacturing facilities in Melbourne and Sydney. It has sales offices in each state, and supplies underlay mainly to large national customers across Australia.

Industry Background

Foam

20. In Australia, PU foam is produced using either a continuous slabstock machine foaming method or the box foaming method.
21. The continuous slabstock foaming machine can be horizontal or vertical, with the horizontal machine generally being capable of achieving more consistent quality and higher density foam than the vertical machine.
22. The continuous slabstock foaming method involves pouring the chemical mixture into an enclosed conveyor belt and allowing it to expand as it travels down the conveyor belt. This method allows the production of 60m³ blocks of foam. The horizontal continuous slabstock method is illustrated in Diagram 1 below.

Diagram 1: Continuous slabstock method of foam manufacture



23. Smaller foam manufacturers use the box foaming method, which involves pouring the chemical mixture into a box and allowing the foam to expand into approximately 3m³ blocks.
24. Once expanded, all foam blocks, irrespective of their quality are converted (or cut into usable shapes and sizes) for use in downstream industries. The foam waste generated by conversion of foam ('scrap foam') is collected and used widely in the production of carpet underlay.
25. A diverse customer group consumes foam products. These customers include bedding manufacturers, furniture manufacturers, converters, downstream consumers and industries requiring specialty foams such as the automotive and aviation industries.
26. There are a range of grades of foam available in the market; different grades are required by different customers in order to fulfil the functionality requirements of each customer.
27. There are three factors which distinguish the quality and grade of PU foam – method of manufacture, density and hardness. *Quality* will primarily be determined by the method of manufacture and density. *Grade* will be determined by both the PU foam's density and hardness.

Bedding

28. Bedding manufacturers are the largest single group of users of domestically produced PU foam. PU foams which range in grades, in conjunction with latex, fibres, fabrics and springs are used in various combinations to manufacture mattresses.

29. Bedding may be grouped into the following wholesale price categories:

- budget (\$100 - \$500);
- low-tier (\$500 - \$1,000);
- mid-tier (\$1,000 - \$2,000);
- upper (\$2,000 - \$4,000); and
- elite (\$4,000 +).

30. Brand recognition may be important in a consumer's choice of product, particularly in the upper price categories of bedding.

31. Market inquiries to date indicate that some bedding is imported into Australia, particularly bedding in the budget and elite categories.

Underlay

32. Underlay is a thin layer of cushioning which is laid beneath carpeting, and in Australia it is generally manufactured from one of two inputs: rubber or waste PU foam. Foam underlay is made from waste PU foam and binder. The PU foam is ground into crumbs and mixed with the binder, and the resulting mix is then put into a block mould and heated, creating a solid block of rebounded foam. The blocks are then peeled into sheets and cut and wrapped into the final product.

33. Underlay plays an important role in a PU foam manufacturer's efforts to reduce waste and recycle foam.

Other industry participants

PU foam manufacturers

34. Currently, Joyce is the only other PU foam manufacturer in Australia that uses horizontal continuous slabstock foaming machines to manufacture PU foam in addition to the merger parties. Joyce is in the process of centralising all its PU foam production into one plant based in Sydney, and supplying nationally from this plant.

35. Foamco manufactures PU foam in Australia on a much smaller scale to Joyce and Dunlop Foams and uses a vertical continuous slabstock foaming machine in its Sydney plant. Foamco also has a box foaming plant in Melbourne.

36. There are a number of firms that use the box foaming method to supply smaller volumes of PU foam in their local area.

Bedding manufacturers

37. There are a large number of bedding manufacturers in Australia. Some, including the merger parties and their largest competitors AH Beard and Sealy, supply bedding on a national basis to bedding retailers and have manufacturing facilities across a number of states. There are numerous other bedding manufacturers throughout Australia that also supply nationally or on a more localised basis.

Underlay manufacturers

38. Bridgestone is the only manufacturer of rubber underlay in Australia and is the largest supplier of underlay in Australia. There are also a number of foam underlay suppliers in Australia. In addition to the underlay manufacturing businesses of the merger parties (Dunlop Flooring and Wonderlay).

Bedding and underlay retailers

39. Bedding is supplied to consumers via a range of national retail stores including specific bedding and furniture chain stores. Bedding is also supplied via in a number of independent and franchise retail stores throughout Australia.
40. Underlay is supplied to consumers via a range of national retail chain stores, franchise stores and independent stores which specialise in carpets or hardware.

Market inquiries

41. On 1 November 2010, the ACCC commenced market inquiries regarding the proposed acquisition. A range of interested parties provided responses, including suppliers of bedding, underlay and PU foam, bedding and underlay retailers.

With/without test

42. In assessing a merger pursuant to section 50 of the *Competition and Consumer Act 2010*, the ACCC must consider the effects of the transaction by comparing the likely competitive environment if the transaction proceeds (the ‘with’ position) to the likely competitive environment if the transaction does not proceed (the likely ‘without’ or ‘counterfactual’ position) to determine whether the acquisition is likely to substantially lessen competition in any relevant market.
43. Having regard to its inquiries to date and the economic incentives of Sleepyhead, the ACCC’s preliminary view is that in the event that Sleepyhead does not acquire the Dunlop Foams business from Pacific Brands:
- Sleepyhead is likely to become an additional manufacturer of PU foam (using the continuous slabstock foaming method) supplying to third parties in Australia in the foreseeable future. It will also continue to produce bedding and underlay.
 - Pacific Brands is likely to continue to produce PU foam, bedding and underlay.

44. In the event that Pacific Brands does not acquire the Wonderlay business from Sleepyhead, the ACCC's preliminary view is that each of the parties will continue to separately manufacture and supply foam carpet underlay for the foreseeable future.

Market definition

45. The Sleepyhead and the Pacific Brands businesses subject to the proposed acquisitions currently overlap in the manufacture and distribution of carpet underlay and bedding products at the wholesale level. The merger parties' businesses will also overlap in relation to the manufacture and supply of PU foam given that Sleepyhead has recently constructed a PU foam manufacturing plant at Deer Park in Victoria.
46. On the basis of its inquiries to date, the ACCC's preliminary view is that the relevant markets are likely to be:
- the national market for the manufacture, conversion and wholesale distribution of PU Foam; and
 - the national market for the manufacture and wholesale distribution of bedding products; and
 - the national market for the manufacture and wholesale distribution of carpet underlay.

Market for PU Foam

Product dimension

47. In Australia, most PU foam is produced using either a continuous slabstock foaming machine or a commercial box foaming machine. The merger parties will both manufacture using the horizontal continuous slabstock method of production.
48. Market inquiries to date have indicated that PU foam produced using the continuous slabstock method can generally be produced with greater density and to a more consistent standard, than PU foam manufactured using the box foaming method.
49. Market inquiries to date suggest that while PU foam produced using the vertical continuous slabstock method of production may be of a comparable quality to that produced using the horizontal continuous slabstock method, the vertical continuous slabstock machinery is limited in that it is unable to produce PU foam above a certain density.
50. A number of foam customers, such as bedding manufacturers have noted that PU foam produced using the box foaming method is generally not suitable for their needs and box foam manufacturers are not able to manufacture sufficient quantities to supply their needs.
51. The ACCC's preliminary view is that foam producers that use the box foaming method and the vertical continuous slabstock method may, to some extent provide

substitutable products to producers using the horizontal continuous slabstock method of production, but provide very limited competitive constraint on foam producers that use the horizontal continuous slabstock method.

52. Dunlop Foams currently supplies various types of specialty PU foam. Each type of specialty PU foam is only required by a specific customer group and customers are unable to substitute between specialty PU foam and other PU foam. Further, production of the various types of specialty PU foam requires specific equipment, expertise, research and development and conversion facilities. Accordingly, the ACCC takes the view that specialty PU foams are unlikely to be within the same market as PU foam produced for non-specialised purposes. The ACCC considers it unlikely that Sleepyhead would supply specialty PU foam in the absence of the proposed merger. Consequently, the ACCC has not considered the proposed acquisition in the context of the supply of types of specialty PU foams.

Geographic dimension

53. The ACCC considers that the manufacture and supply of PU foam appears to be evolving from state-based geographic markets into a national market. Key reasons for this appear to be:
- improvements in compression technologies which have increased the ability for PU foam to be compressed, lowering the costs of transportation and reducing the possibility of PU foam damage in transit; and
 - decreasing volumes of PU foam demanded in Australia – centralised production might be necessary in order for foam manufacturers to achieve economies of scale.
54. The ACCC notes that Dunlop Foams currently supplies customers in most states from its manufacturing plants located in the same state. It manufactures PU foam in its facilities located in Victoria, New South Wales, Queensland and Western Australia. It operates conversion facilities to supply customers in South Australia and Tasmania.
55. However, Joyce, the only other major supplier of PU foam, is in the process of centralising all PU foam manufacture into one plant based in Sydney, and supplying nationally from this plant. Joyce has been supplying into Victoria since 2003, without a manufacturing presence in Victoria. Joyce has conversion plants in each state where it supplies PU foam.
56. Sleepyhead proposes to have one PU foam plant in Victoria, which will at least be supplying its bedding manufacturing requirements in Victoria, Queensland and Western Australia, as well as potentially supplying third parties.
57. The information received during market inquiries to date suggests that the relevant market is the national market for manufacture, conversion and wholesale distribution of PU Foam. However, the ACCC requires further information to form a concluded view on the extent to which an interstate PU foam supplier can be competitive with a more localised supplier.

The ACCC invites market participants to provide further information and evidence in relation to the product and geographic scope of the relevant market for the manufacture of PU foam.

- 1. Information about the competitive constraint provided by box foam manufacturers, and/or Foamco, the supplier of foam produced with vertical continuous slabstock machinery. This includes answers to the following questions:*
 - a. Have there been instances where the supply or potential supply by any of these manufacturers has caused Dunlop Foams and/or Joyce to reduce their prices or otherwise improve their terms of supply? Please provide details.*
 - b. Is the density and grade of the PU foam supplied by these manufacturers consistently comparable to that of PU foam supplied by Dunlop Foams and/or Joyce? If not, please provide details.*
 - c. Is PU foam supplied by these manufacturers as consistent as PU foam supplied by Dunlop Foams and/or Joyce?*
 - d. What are the end uses of PU foam produced by these manufacturers and how do these end uses differ from the end uses of the PU foam produced by Dunlop Foams and/or Joyce?*
 - e. Do any of these manufacturers provide the full range of grades and densities of PU foam that a customer might require?*
 - f. Are these manufacturers able to satisfy the volume requirements of larger customers?*
 - g. How do the costs of production between box foam manufacture, the vertical continuous slabstock method and the horizontal continuous slabstock method differ?*
- 2. Information as to the extent to which an interstate PU foam supplier can be competitive with a supplier located in the same state as the customer. This includes answers to the following questions:*
 - a. How much PU foam is currently transported interstate? Is the volume of PU foam transported interstate sufficient to satisfy the demand of larger customers? Alternatively, are larger customers typically reliant on local PU foam manufacturers? Of the quantity of the PU foam transported interstate, please estimate how much is produced by each manufacturer in the market.*
 - b. How significant is the cost difference between transporting PU foam to an interstate customer as compared to transporting PU foam to a customer in the same state? Please provide details of the differences.*
 - c. Are there any other potential issues involved with transporting PU foam over longer distances? Please provide details.*

- d. *Do box foamers typically have the compression equipment required to compress foam prior to transportation? What are the costs and/or risks involved with investment in compression equipment to facilitate the interstate transportation of PU foam?*
- e. *Is having a warehouse and/or a conversion facility in close proximity to the customer necessary for the just-in-time PU foam supply requirements? Are there any other reasons why a warehouse facility and/or conversion facility in close proximity to the customer is necessary?*
- f. *What are the costs and/or risks involved with establishing a warehouse and/or conversion facility in a separate state to where PU foam manufacturing facilities are located in order to supply foam customers interstate?*

Market for Bedding

58. Sleepyhead and Sleepmaker (Pacific Brands) both manufacture and distribute bedding at the wholesale level to retail customers.
59. On the basis of market inquiries to date, the ACCC considers that bedding in all price categories is likely to fall within the same market. The ACCC notes that there are some differences between bedding in each price category such as:
 - Quality of components: bedding in lower price ranges use lower quality threading in fabrics, lower density PU foams and less exotic fabrics; and
 - Quantity of components: bedding in lower price ranges use fewer springs and less PU foam.
60. However, market inquiries to date indicate that bedding manufacturers are able to switch to manufacturing bedding in different price ranges with relative ease, given that the machinery and inputs used are generally similar across different price ranges.
61. Market inquiries suggest that the appropriate geographic market for bedding is national, given that supply contracts are predominantly arranged on a national basis with national retailers. National retailers represent a significant proportion of bedding customers. Further, bedding manufacturers appear to set the prices of their products nationally.
62. Accordingly, the ACCC considers that the geographic dimension of the market for the supply of bedding is likely to be national.

Market for Carpet Underlay

63. Dunlop Flooring (Pacific Brands) and Wonderlay (Sleepyhead) both manufacture and distribute PU foam carpet underlay at the wholesale level.
64. Market inquiries to date have indicated that wholesale and downstream customers are likely to consider PU foam and rubber underlay to be close substitutes, given

the similar pricing, functionality and technical specification of the two types of underlay. Accordingly, the ACCC's preliminary view is that the relevant market for carpet underlay includes underlay made from PU foam, and underlay made from rubber.

65. The ACCC understands that manufacturers of underlay are able to supply underlay throughout Australia from one manufacturing facility. This suggests that the market for the manufacture and wholesale distribution of underlay is national.

Statement of Issues

66. For the purpose of this Statement of Issues, the issues in this matter are divided into two categories, 'issues of concern' and 'issues unlikely to pose concerns'.

Issues of concern

National market for the manufacture, conversion and wholesale distribution of PU foam

67. The ACCC is of the preliminary view that the proposed acquisition of Dunlop Foams by Sleepyhead is likely to result in a substantial lessening of competition in the national market for the manufacture, conversion and wholesale distribution of PU foam.

Removal of a likely vigorous & effective competitor

68. There are currently two major firms manufacturing and supplying PU foam – Dunlop Foams and Joyce. Some market participants have commented that these are the only two options for procuring their PU foam requirements. While there are a number of smaller manufacturers of PU foam in the market, including Foamco and numerous box foamers, the ACCC considers that these are unlikely to act as a strong competitive constraint to Dunlop Foams and Joyce, primarily because the output of their plants is generally of a lower volume, and they generally have a much smaller range of grades with lower densities compared to the PU foam produced by Dunlop Foams and Joyce.
69. Sleepyhead has recently installed a continuous slabstock foaming machine, which is capable of producing significant volumes of PU foam at a quality which is comparable to that of Joyce and Dunlop Foams.
70. In the absence of the proposed merger, Sleepyhead is likely to have the ability and incentive to enter the market and compete with Dunlop Foams and Joyce to supply foam customers. The options for the procurement of PU foam for a number of foam customers would therefore increase from two to three. If Sleepyhead chose to compete with Joyce and Dunlop Foams to attract foam customers, it is likely that this would place downward pressure on the price of PU foam in this market.

Likely impact of Sleepyhead's entry

71. The ACCC considers that, in the counterfactual, even if Sleepyhead does not actively compete for customers and confines its PU foam supply to its own bedding and underlay business, its existence in the industry as a potential competitor with capacity and the ability to manufacture and supply large volumes of high quality PU foam, is likely in itself to facilitate competition in the market.
72. The ACCC considers that, in the counterfactual, PU foam customers will become aware of the potential for Sleepyhead to supply large volumes of a range of PU foam. This could act as a competitive constraint on Dunlop Foams and Joyce, resulting in lower prices and improved conditions of supply.
73. The ACCC also considers that, in the counterfactual, even if Sleepyhead only self-supplies, it is likely that the removal of Sleepyhead as a customer in the market would change the level of excess capacity in the market, and Dunlop Foams and Joyce would have to compete more vigorously to attract a smaller pool of customers.

Barriers to Entry

74. The ACCC considers the barriers to entry into horizontal continuous PU foam manufacturing to be high. The key reasons for this are:
75. It would be difficult for a new entrant that is not vertically integrating to be able to justify the costs associated with establishing and operating a horizontal continuous PU foam manufacturing facility without having customers secured to be able to achieve the required minimum scale of production. In a market where customer switching is minimal and long-term contracts are not the norm, it would be difficult for a new entrant to be able to attract enough customers. The ACCC considers this to be the most significant barrier to entry.
76. There is considerable excess capacity in the market. A new entrant is likely to fear incumbents deploying excess capacity against it.
77. There are difficulties involved in finding suitably skilled staff to set up and operate PU foam pouring operations.

Countervailing Power

78. Market inquiries have not revealed any evidence that customers in the PU foam market would be likely to sponsor new entry or vertically integrate into PU foam production, as Sleepyhead has done. Therefore, the ACCC's preliminary view is that there is insufficient countervailing power in the market to competitively constrain PU foam suppliers. However, the ACCC is continuing to investigate this possibility.

Conclusion on PU foam issues

79. In the absence of the proposed merger, there may be three large manufacturers of PU foam in this market. The merger would reduce the number of possible competitors in the PU foam market in the future from three to two.

80. The ACCC considers that even if Sleepyhead does not supply third parties, the imminent threat of it doing so is likely to act as a competitive constraint, impacting on pricing and improving non-price conditions of supply in the market.
81. Further, Sleepyhead commencing self supply would result in the removal of Sleepyhead as a large foam customer in the market, increasing the levels of excess capacity which may result in increased competition between Dunlop Foams and Joyce to gain market share amongst a smaller pool of customers.
82. Accordingly, the ACCC considers that the proposed acquisition is likely to raise competition concerns in the national market for the manufacture, conversion and wholesale distribution of PU foam.

The ACCC invites market participants to comment on its concerns in relation to the PU foam market, including the following.

3. *The likely effect of Sleepyhead's entry on the competitive dynamics of the PU foam market. This includes answers to the following questions:*
 - a. *Would foam customers be willing to purchase PU foam from Sleepyhead in the absence of the proposed acquisition? Please provide reasons.*
 - b. *How much of a discount (in percentage terms) would be required before foam customers would be willing to switch to acquiring PU foam from Sleepyhead?*
4. *The role of existing competitors in the market, including whether any particular competitor has influenced the prices, service or products offered by Joyce and/or Dunlop Foams. This includes answers to the following questions:*
 - a. *Do customers refer to the prices offered by Foamco or any of the box foamers when negotiating with Dunlop Foams and/or Joyce to obtain better prices for PU foam? In such situations, does Dunlop Foams and/or Joyce match or beat the prices offered by the other manufacturer? Please provide details.*
 - b. *Have customers switched from Joyce or Dunlop Foams to Foamco or any of the box foamers in the last three years? Please provide details.*
 - c. *How much of a discount (in percentage terms) would be required for foam customers to switch from Joyce or Dunlop Foams to Foamco or any of the box foamers?*
5. *Whether there are significant difficulties, costs or time involved in obtaining the necessary expertise and inputs for commencing the manufacture, conversion and wholesale distribution of PU foam, particularly using the continuous slabstock manufacturing process.*
6. *The likelihood that bedding manufacturers or other users of PU foam would vertically integrate into manufacturing PU foam that is an input into their products, as Sleepyhead has done. Alternatively, the likelihood that bedding manufacturers or other users of PU foam would sponsor the entry of a new PU foam manufacturer.*

7. Whether imports of downstream finished products such as furniture and bedding have materially impacted on PU foam prices set by foam manufacturers in Australia.

Issues unlikely to pose concerns

Either a national market or separate state-based markets for the manufacture and wholesale distribution of bedding products

83. Irrespective of whether the market(s) are defined as a national market or separate state-based markets, the ACCC considers that post-acquisition, the merged entity is likely to be competitively constrained by numerous existing competitors. Market inquiries have indicated that a number of competing bedding manufacturers are able to increase production in response to any increase in price by the merged firm.
84. Accordingly, the ACCC considers that the proposed acquisition is unlikely to result in a substantial lessening of competition in either a national market or in separate state-based markets for the manufacture and wholesale distribution of bedding products.

National market for the manufacture and wholesale distribution of carpet underlay

85. Sleepyhead currently manufactures and distributes foam carpet underlay from its manufacturing plant in Brisbane.
86. The ACCC considers that Sleepyhead is likely to have a significant presence in the manufacture and conversion of PU foam in the future, regardless of the proposed acquisition. Further, scrap foam can be a key input into the manufacture of underlay and is a by-product of the conversion of PU foam. However, the ACCC's preliminary view is that while Sleepyhead will have an expanded presence in the manufacture of these inputs in the counterfactual, the proposed acquisition of Wonderlay by Pacific Brands is unlikely to result in a substantial lessening of competition in the market for carpet underlay.
87. In this market, the ACCC considers that the proposed acquisition would result in a small increase in market concentration and the merged firm is likely to be constrained by existing domestic competitors, particularly Bridgestone, a major manufacturer of rubber underlay as well as competition from imports.

Areas under further investigation

88. The ACCC is seeking information and evidence from market participants in relation to the preliminary competitive analysis outlined in this Statement of Issues, and in particular, whether there are further factors that should be taken into consideration by the ACCC in forming a concluded view.

ACCC's future steps

89. The ACCC will finalise its view on this matter after it considers market responses invited by this Statement of Issues.
90. The ACCC now seeks submissions from market participants on each of the issues identified in this Statement of Issues and on any other issue that may be relevant to the ACCC's assessment of this matter.
91. Submissions are to be received by the ACCC no later than 4 February 2011. The ACCC will consider the submissions received from the market and the merger parties in light of the issues identified above and will, in conjunction with information and submissions already provided by the parties, come to a final view in light of the issues raised above.
92. The ACCC intends to publicly announce its final view by 24 February 2011. However the anticipated timeline may change in line with the *Merger Review Process Guidelines*. A Public Competition Assessment for the purpose of explaining the ACCC's final view may be published following the ACCC's public announcement.