



## Statement of Issues

27 August 2020

### South Pacific Laundry – proposed acquisition of Spotless Laundries

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#### About ACCC ‘Statements of Issues’

1. South Pacific Laundry (**SPL**) proposes to acquire Spotless Group Holdings Limited’s (**Spotless**) (together, the **Parties**) laundry services business (**Spotless Laundries**) (the **proposed acquisition**).
2. This Statement of Issues:
  - gives the Australian Competition and Consumer Commission’s (**ACCC**) preliminary views on competition issues arising from the proposed acquisition;
  - identifies areas of further inquiry; and
  - invites interested parties to submit comments and information to assist our assessment of the issues.
3. Statements of Issues are not final decisions and do not refer to confidential information provided by the parties or other market participants and therefore may not fully articulate the ACCC’s preliminary position.

#### Overview of ACCC’s preliminary views

4. In considering the proposed acquisition, the ACCC applies the legal test which is set out in section 50 of the *Competition and Consumer Act 2010* (the **CCA**). In general terms, section 50 prohibits acquisitions that would have the effect, or be likely to have the effect, of substantially lessening competition in any market.
5. The ACCC divides its preliminary views into three categories, ‘issues of concern’, ‘issues that may raise concerns’ and ‘issues unlikely to raise concerns’. In this Statement of Issues we identified ‘issues that may raise concerns’ and ‘issues unlikely to raise concerns’.

## Issues that may raise concerns

6. The ACCC's preliminary view is that the proposed acquisition may substantially lessen competition in the supply of commercial laundry services in multiple areas where the Parties overlap.
7. The ACCC's preliminary concerns relate to the Adelaide, Perth, Sydney and Melbourne areas, where the proposed acquisition combines two of the largest commercial laundry suppliers in each area.
8. The ACCC's preliminary view is that the proposed acquisition may also substantially lessen competition nationally or across multiple regions, as the proposed acquisition combines two of the largest national commercial laundry suppliers and across multiple regions.

## Issues unlikely to raise concerns

9. The ACCC's preliminary view is that the proposed acquisition is unlikely to substantially lessen competition in the supply of commercial laundry services in Brisbane or Canberra.

## Making a submission

10. The ACCC invites submissions from interested parties.
11. Interested parties should provide submissions by 5pm on **Friday, 18 September 2020**. Responses may be emailed to [mergers@acc.gov.au](mailto:mergers@acc.gov.au) with the title: Submission re: "*South Pacific Laundry/Spotless Laundries - attention Jonathan Koay/Soo Sian Koh*". If you would like to discuss the matter with ACCC staff, or have any questions about this Statement of Issues, please contact Jonathan Koay on 03 9658 6436 or Soo Sian Koh on 03 9290 1904.
12. The ACCC anticipates making a final decision on **Thursday, 26 November 2020**, however, this timeline can change. To keep up with possible timing changes and to find relevant documents, interested parties should visit the Mergers Register on the ACCC's website at <https://www.acc.gov.au/public-registers/mergers-registers/public-informal-merger-reviews>.

## Confidentiality of submissions

13. The ACCC will not publish submissions regarding the proposed acquisition. We will not disclose submissions to third parties (except our advisors/consultants) unless compelled by law (for example, under freedom of information legislation or during court proceedings) or in accordance with s155AAA of the CCA. Where the ACCC is required to disclose confidential information, the ACCC will notify you in advance where possible so that you may have an opportunity to be heard. Therefore, please identify any confidential information that is provided to the ACCC. Our [Informal Merger Review Process Guidelines](#) contain more information on confidentiality.

## The Parties

### The acquirer: South Pacific Laundry

14. SPL is a national supplier of commercial laundry services in Australia. Its services include the hiring, cleaning and delivery of linen and garments. SPL is wholly-owned by Australian investment firm Anchorage Capital Partners.
15. SPL currently focuses on accommodation customers in Australia, but also services healthcare and aged care customers in some areas. SPL has a national presence across metropolitan and regional areas, excluding the Northern Territory and Tasmania, and operates eight processing plants and ten distribution centres across Australia.

### The target: Spotless Laundries

16. Spotless Laundries, a division of Spotless, is a national supplier of commercial laundry services in Australia. Its services include linen hire and the cleaning and delivery of linen and garments.
17. Spotless Laundries primarily supplies laundry services for both linen and garments to healthcare and industrial customers in metropolitan and regional areas, but also services accommodation customers in some areas. It operates ten processing plants and four depots across Australia.
18. Spotless is majority-owned by Australian listed company Downer EDI Limited.

### Sale of Spotless Laundries

19. SPL is proposing to acquire the Spotless Laundries business of Spotless and is participating in a competitive bid process. The ACCC is also assessing the proposed acquisition of Spotless Laundries' garment business by AlSCO Pty Ltd (refer to the [ACCC's Merger Register](#)).

## Industry background

### The supply chain

20. There are two main classes of laundered items: linen and garments.
21. The basic laundering process and the equipment typically used can be summarised as follows:  
  
Pickup soiled laundry → Sorting by item / size by hand → Washing in large 'tunnel' washing machines or washer extractors → Drying in tumble driers → Finishing (steaming of garments) / linen ironing by machine → Linen folding by machine → Delivery
22. Many customers opt for a 'full rental model' where the laundry supplier purchases linen/garments for the customer at the start of the contract and the customer hires the items back from the laundry supplier.

## Linen and garments

23. Linen refers to fabric goods including bedding, towels and tablecloths. Within linen, there are different categories of customer with varying linen needs:
  - **Accommodation** – e.g. hotels, motels, bed and breakfasts. Items include pillowcases, flat sheets, doona covers, bedspreads, bath towels, etc.; and
  - **Healthcare and aged care** – e.g. hospitals, retirement villages. Items include flat sheets, scrubs, sterile theatre packs, patient gowns, etc.
24. Garments are for organisations that require uniforms, such as chefs' uniforms, aprons, coats, pants, tops and industrial overalls.

## Tender and contract processes

25. Most commercial customers of laundry services purchase the services via tendering or competitive quote processes. Contracts are typically two to three years, often with an option to extend.
26. Some public hospitals and aged care customers use a representative body to select a panel of laundry suppliers and negotiate the rates and deliverables.
27. Contracts often do not have contractual penalties for early termination. However, many customers rent their linen and garments from the laundry suppliers and may have to pay an exit payment for the residual / depreciated value of the linen or garments purchased by the supplier.

## Areas of overlap

28. The Parties' operations overlap in the Adelaide, Brisbane, Canberra<sup>1</sup>, Melbourne, Perth and Sydney areas. There is no local overlap between them in the Northern Territory or Tasmania.
29. The ACCC understands that both SPL and Spotless Laundries have and do tender for similar contracts across all customer types, although historically they tend to focus on particular customer types.
30. The primary area of overlap between the Parties is commercial laundering services for linen. Although Spotless Laundries is a major supplier of laundering services for garments, SPL currently has a very limited presence in garments in only one of the overlap cities.

## Market definition

### Product dimension

31. The ACCC's preliminary view is that the product dimension of the relevant markets is the supply of commercial laundry services. The ACCC acknowledges

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<sup>1</sup> Where the Parties have depots / warehouses, but no processing plants.

that within this market, many suppliers specialise in particular item types and/or customer categories.

*Segmentation by customer category and item type*

32. The ACCC has considered whether it is appropriate to segment the commercial laundry market by:
- **Linen customer category:** i.e. separate markets for linen to different customer industries (i.e. accommodation and healthcare / aged care); and
  - **Type of item:** i.e. separate markets for (i) linen and (ii) garments.
33. The ACCC's investigation indicated that suppliers often specialise in either linen or garments, and within linen, particular customer categories. There appears to be a degree of reluctance or inertia:
- from customers, towards switching to laundries that already specialise in supplying a different customer category or item type; and
  - from suppliers, towards moving into or switching between customer categories or item types.
34. Despite the somewhat limited historic instances of switching, to define relevant markets the ACCC will consider whether customers and suppliers would likely switch to other products *in response to a price rise or reduction in service quality*. This involves considering whether:
- customers would overcome their reluctance to choosing suppliers new to a customer category or item type; and
  - a supplier's capacity to produce one product can profitably be switched to supply another product quickly and without significant investment.<sup>2</sup>
35. The ACCC explored both the circumstances under which customers would select suppliers new to their category and the ease or difficulty with which laundries can switch between or move into supplying (i) different linen customer categories and (ii) linen and garments.
36. The reluctance of customers to select suppliers new to their category appears to be driven by concerns about the volume capability and quality of less familiar suppliers. At this stage, the ACCC considers that these concerns appear capable of being overcome. The ACCC has therefore focussed on the tangible technical and equipment cost factors influencing the ability of suppliers to move into or switch between categories.

Linen customer categories

37. The ACCC is considering the extent to which laundries specialising in a given customer category can move into or switch from healthcare linen to accommodation linen (and *vice versa*). The ACCC currently considers that aside

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<sup>2</sup> ACCC, *Merger Guidelines 2008* (updated 2017), paragraph 4.12 – 4.26.

from some customers' hesitancy to select suppliers new to a category there are no significant technical or equipment cost impediments to doing so as:

- **The laundry services across different customer types are not substantially different.** Commercial laundry services for all customer categories involve the hire, pick-up, sorting, washing, ironing, folding, and delivery of linen. There are, however, some differences in the frequency of turnover (as healthcare and aged care facilities require more frequent changes), linen quality (as accommodation customers generally require higher quality linen than some healthcare and aged care customers, although hotel-quality linen is used in certain premium hospitals and aged care facilities), specialised cleaning needs or standards (as healthcare and aged care facilities may require specialised washes, processes or certifications), and product ranges. The different sorting, varied product range and standards for healthcare / aged care linen may result in additional costs.
- **The facilities, machinery and logistical capabilities are highly transferrable.** Suppliers use largely similar equipment to process all types of linen with some variations in configuration such as wash cycle / process, chemicals and temperature between customer types. Suppliers may use additional equipment to better serve particular customer types (for example, sterilisation equipment for healthcare customers that require sterile linen),<sup>3</sup> or equipment tailored to industry-specific items (e.g. towels, sheets, blankets or scrubs), but such additional equipment does not come at a substantial incremental cost to a laundry supplier.
- **Suppliers can and do supply multiple customer types.** For example, SPL, Spotless, Princes, Sunfresh, Minda and Elite each process both healthcare and accommodation linen – in some cases, using the same equipment.

#### Linen and garments

38. Similarly, the ACCC is considering the ease or difficulty with which laundries specialising in a given item type can move into or switch from linen to garments (and *vice versa*). As with different linen customer categories, the ACCC currently considers that aside from a degree of customer hesitancy, there are no significant technical or equipment cost impediments to doing so as:

- **The laundry services for linen and garments are not substantially different.** Commercial laundry services for linen and garments both involve hire, pick-up, sorting, washing, ironing, folding and delivery, although garments may require steaming.
- **Facilities, machinery and logistical capabilities are generally transferrable between linen and garments, with some differences.** Similar, but not identical, equipment is used. Garments require slightly different equipment for certain stages of laundering: typically, finishing (steaming) equipment, and optionally, folding machines for specific garment or linen items (e.g. garments, towels, sheets) for greater efficiency.

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<sup>3</sup> Although the ACCC understands that there is declining demand for laundry providers to offer sterilisation.

Suppliers may also handle garments differently to linen, e.g. by using dedicated conveyors and rail systems, and to protect buttons and zips. Garments equipment is readily available, and the ACCC's investigation indicates it does not come at a substantial incremental cost to a laundry supplier, although it may be relatively costly for some smaller suppliers.

- **Suppliers can and do supply both linen and garment laundering.** For example, Spotless, AlSCO, and Sunshine process both linen and garments. Some of Spotless' plants process both linen and garments at the same site.
39. Some market feedback indicated that for a linen supplier, switching from linen to garments would be more difficult than switching between linen customer types, with a greater need to invest in specialised equipment.

*Government-owned laundries*

40. The ACCC is aware of Government-owned laundries with large capacity for healthcare linen in the Sydney, Melbourne, Brisbane and Canberra areas. The ACCC's preliminary view is that, apart from Capital Linen in Canberra, Government-owned laundries primarily service public hospitals. While they may compete for a limited number of other customers, this appears to be largely limited to servicing a small number of private customers, particularly in regional areas where no other suppliers are available.
41. Therefore, Government-owned laundries do not generally appear to be viable alternatives to private laundry suppliers (such as the Parties) for non-healthcare, private hospital or private aged care facility customers. Additionally, supply to public hospitals by Government-owned laundries is generally non-contestable, with their supply often operating in a "closed loop" structure which excludes all potential private suppliers.
42. Market feedback has suggested that some Government-owned laundries may provide a limited degree of competitive constraint in capital cities (and Capital Linen provides a significant constraint in Canberra). Relevantly, the ACCC is continuing to consider the degree to which supply by Government-owned laundries in the Melbourne area may be contestable.

*Conclusion on product dimension*

43. The ACCC's preliminary view is that, because there are no obvious significant impediments from a technical or equipment cost perspective to suppliers (excluding Government-owned laundries) moving into other linen customer categories and, to a lesser extent, item types, it is appropriate to assess the likely effect of the proposed acquisition in a commercial laundry services market that encompasses both linen and garments and all customer categories.
44. However, the ACCC will continue to examine the incremental costs of – and any barriers to – laundries moving from linen to garments (and *vice versa*), and from accommodation to healthcare / aged care linen (and *vice versa*) before finalising its view on the scope of the relevant product market.
45. Furthermore, as part of its assessment, the ACCC will consider whether the proposed acquisition may have heightened competition impacts in particular parts of the market (i.e. for a specific customer type).

### Geographic dimension

46. The ACCC's assessment to date has explored whether the relevant geographic dimension involves:
- city-based markets; and/or
  - achbroader markets, such as a national market or one or more multi-regional markets.<sup>4</sup>
47. The ACCC understands that customers generally use, and seek tender proposals from, laundry providers with facilities or depots close to their location, which is supportive of primarily city-based markets. Market feedback indicates that many customers with national operations procure commercial laundry services via tender separately for each area in which they operate. This is particularly true for linen, where the Parties primarily overlap.
48. However, the ACCC is also aware that for a subset of customers the choice of laundry supplier will take into account the ability of suppliers to provide services at a national or multi-regional level. A small number of customers – primarily garments customers and certain healthcare customers – that have a presence nationally or in multiple areas appeared to prefer to contract with laundry providers that can provide services nationally, or across all or most of the areas. Such customers may be reluctant to choose providers who only service one or two areas, and the ACCC understands this may be motivated by reducing contracting and administration costs, access to a single point of contact, operational consistency, and the potential to receive volume-based pricing benefits.
49. Even in the absence of customers awarding national or multi-state contracts to a single supplier, the ACCC understands that some customers value a supplier having a national or multi-state presence, with brand, reputation and reliability being relevant considerations for many customers. Some customers also appear to recognise a laundry's performance record in other states. In addition, some customers consider that suppliers that are well-funded and have multiple production facilities, including interstate facilities, are more reliable and less exposed if one facility is unexpectedly unavailable. Accordingly, having a national or multi-regional footprint appears to be a relevant competitive parameter.
50. As such, competition may occur at a national, or at least multi-regional, level as well as at a narrower regional level.
51. The ACCC is primarily considering the impact of the proposed acquisition on competition within city-based markets, but will also assess the impact on national and multi-regional competition.

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<sup>4</sup> The Parties operate in most, but not all, states and territories including metropolitan and regional areas. Nonetheless the ACCC considers the Parties have a reputation of having a national brand and footprint.

The ACCC invites comments from market participants on its preliminary views about the definition of the relevant market(s). In particular market participants may wish to comment on the following:

- The extent to which laundry facilities, equipment and logistics capabilities are transferrable between linen and garment items, and between customer types.
- Specialised equipment and/or services that are required for particular items or customer types.
- Why laundry suppliers specialise on particular customer types. To what extent is specialisation by different suppliers attributable to:
  - the preferences or constraints of laundry customers within each industry category – and what, in turn, shapes and influences these preferences?
  - the preferences or constraints of laundry suppliers within each industry category – and what, in turn, shapes and influences these preferences?
- The extent to which Government-owned laundries are a viable and relevant alternative to commercial laundry suppliers.
- If you have operations nationally or across multiple states, whether:
  - it is important to use a laundry supplier with a national and/or multi-regional presence, including the reasons why (or why not)
  - there are benefits to using a single supplier nationally or in multiple states – e.g. transaction costs, more attractive volume-based pricing benefits or negotiating power.

## **Issues that may raise concerns: loss of competition in Adelaide, Sydney, Melbourne and Perth areas**

52. The ACCC considers the proposed acquisition may substantially lessen competition in the Adelaide, Sydney, Melbourne and Perth areas by removing an effective competitor in already-concentrated markets. The merged entity would have high market shares in these areas, and the proposed acquisition will combine two of the largest commercial laundry suppliers in each area, reducing the already-limited number of comparable laundries.<sup>5</sup>
53. Spotless Laundries and SPL are particularly well-established suppliers with brand, scale and reputation. It appears that scale is important in the laundry industry and allows suppliers to be more efficient, with new entrants seeking to capture these efficiencies facing significant upfront capital and inventory costs, and risking a sizeable proportion of those costs if entry does not succeed. Small or less-established commercial laundries may not be able to expand to compete

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<sup>5</sup> The ACCC's preliminary view is that this includes: Minda, AlSCO and Princes in the Adelaide area; Lawrence, Sunshine, Excellent, Ralph Street and AlSCO in the Sydney area; Princes, AlSCO, Gouge and Sunfresh in the Melbourne area; and Atlas, Brightwater, Elite and AlSCO in the Perth area.

on the same level as the Parties due to various barriers to expansion. Customers with large time-sensitive volumes appear reluctant to switch to new and unfamiliar suppliers who might not have the scale, reliability or reputation to meet their needs.

54. Despite SPL's historic focus on supplying linen to accommodation providers, and Spotless Laundries' historic focus on supplying linen to healthcare customers and garments to industrial customers, the ACCC considers that the threat of winning each other's customers may constrain both Parties when setting terms for their customers. This tension would be lost if they combine.
55. SPL and Spotless Laundries have both competed for customers outside of their historic areas of focus and are considered to be viable suppliers in each other's focus areas. SPL already competes for healthcare / aged care customers in multiple cities. Without the acquisition, SPL and Spotless Laundries could further expand into each other's focus areas, compete more closely and increase competition. SPL and Spotless Laundries are well-placed to expand into each other's specialisations because:
  - *Knowledge*: they have experience in the commercial laundry industry, including some experience in both specialisations (supply side);
  - *Resources*: they have a number of existing facilities and access to funding (to grow organically or via acquisition) and there are no obvious impediments (see paragraph 37) (supply side); and
  - *Customer acceptance*: SPL and Spotless Laundries have an existing reputation based on performance in their respective specialisations (see paragraph 53 above) (demand side).
56. The ACCC therefore considers that SPL and Spotless Laundries are important constraints on each other as actual and potential suppliers to each other's customers.
57. Some customers perceive that they have few or no alternatives to SPL and Spotless. For these customers, a limited number of suppliers in their geographic area stand out as being comparable to SPL or Spotless. Following this Statement of Issues, the ACCC intends to gather further information about the constraint provided by other commercial laundry providers and their ability to expand.

### Market shares and concentration

58. As stated in the ACCC's *Merger Guidelines*, market concentration refers to the number and size of participants in the market. It provides a snapshot of market structure as well as an estimate of the size of the Parties, which can assist when considering the other merger factors. The ACCC typically measures concentration with reference to market shares, concentration ratios and the Herfindahl-Hirschman Index (**HHI**).<sup>6</sup>

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<sup>6</sup> ACCC, *Merger Guidelines 2008* (updated 2017), paragraph 7.6 – 7.16.

59. SPL or Spotless Laundries are already the largest, or one of the largest, commercial laundry suppliers in the Sydney, Melbourne, Adelaide and Perth areas. Based on the ACCC's market share estimates, the merged entity will become the outright market leader with a combined market share in the commercial laundry market of 50-60% in the Adelaide area, and between 30-40% in each of the Sydney, Melbourne and Perth areas.<sup>7</sup>
60. The ACCC has calculated the HHI, a measure of market concentration which provides a useful summary statistic, for the broader commercial laundry market<sup>8</sup> for each overlap area. The ACCC generally identifies competition concerns when the post-merger HHI is greater than 2000, or less than 2000 with a change in HHI (delta) greater than 100.<sup>9</sup> The ACCC estimates that:
- the post-merger HHI would be above 2,000 in the Sydney, Melbourne and Perth areas, and above 3,000 in the Adelaide area; and
  - the change in HHI (delta) is greater than 100, with a change in HHI (delta) of between 450 and 900 in the Sydney, Melbourne and Perth areas and above 1,000 in the Adelaide area.

#### **Loss of current and potential future competition**

61. SPL submits that the parties are not close competitors as SPL's volumes are primarily in accommodation and Spotless Laundries' volumes are primarily in healthcare.
62. The ACCC considers that SPL and Spotless Laundries exercise an important competitive constraint on each other – both through actual supply to customers and as a potential supplier – given the concentrated nature of the market and limited number of similar suppliers in each relevant geographic area.
63. SPL and Spotless Laundries are already seen by some customers as actual or potential alternatives within each other's area of focus. SPL has won new healthcare / aged care laundry customers in recent years, including in competition with Spotless Laundries. Some market participants see SPL as an important alternative to Spotless Laundries. Market feedback also indicated some concern that the proposed acquisition could remove SPL as a potential supplier in the garment category.
64. The ACCC accepts that there are some barriers to SPL moving from accommodation to healthcare linen, as discussed in paragraph 37 above. However, we understand these costs are relatively small and may be offset by the scale efficiencies that SPL would derive from the increased volumes that diversification enables. We note that laundry suppliers can and do service different customer categories with only moderate changes to their operations. For instance, in the healthcare sector, some alternative suppliers such as Princes and Sunfresh have achieved varying degrees of success diversifying between accommodation and healthcare customers.

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<sup>7</sup> Note that these shares would not reflect any recent contract wins or losses.

<sup>8</sup> In line with the ACCC's preliminary views on market definition, these calculations reflect volumes of linen and garments across all customer industry types but exclude government-owned laundries except for Capital Linen in Canberra.

<sup>9</sup> ACCC, *Merger Guidelines 2008* (updated 2017), paragraph 7.14.

65. SPL and Spotless Laundries are also well-placed to expand into different customer types given their scale, established national reputation and resources that sets them apart from almost all other suppliers. Without the proposed acquisition, SPL could further expand its historically limited presence in both healthcare / aged care and garments. The proposed acquisition also removes the possibility of Spotless Laundries competing more closely with SPL for accommodation customers. The ACCC is concerned that the proposed acquisition will remove the possibility of SPL and Spotless Laundries competing more closely in the future for certain customer types.
66. The ACCC considers that the decline in accommodation laundry volumes as a consequence of the COVID-19 pandemic may accelerate suppliers' expansion into different customer categories. The ACCC is continuing to consider how much spare capacity is likely to linger, and for how long, and the impact of this spare capacity on the way SPL and other laundry suppliers may compete to win healthcare and aged care customers.

**There are a limited number of viable alternative suppliers**

67. **Table 1** below shows the ACCC's understanding of where the main alternative providers compete in those areas where the ACCC has identified potential competition concerns.

**Table 1: Commercial laundry suppliers by area<sup>10</sup>**

Supplier	Adelaide	Perth	Sydney	Melbourne		
SPL	✓	✓	✓	✓		
Spotless	✓	✓	✓	✓		
Estimated combined market share <sup>11</sup>	50-60%	30-40%	30-40%	30-40%		
AlSCO	✓	✓	✓	✓		
Atlas		✓				
Brightwater		✓				
Elite		✓				
Excellent					✓	
Ralph Street					✓	
Gouge						✓
Lawrence						✓
Minda						✓
Princes						✓
Sunfresh						✓
Sunshine	✓					

<sup>10</sup> The ACCC has listed commercial laundry suppliers who have been highlighted in its market inquiries to date. The ACCC is aware of other smaller suppliers not listed in this table.

<sup>11</sup> Note that the shares would not reflect any recent contract wins or losses.

68. These alternative suppliers are limited in number and generally impose varying degrees of competitive constraint in each area. Market inquiries to date have provided mixed views on whether there are sufficient comparable alternatives in each geographic area. For example in:
- **Sydney:** Lawrence, Sunshine, Excellent and Ralph St primarily focus on accommodation customers. Market feedback suggests AlSCO has a greater presence in regional NSW focusing on garments and hospitality customers while Excellent and Ralph St may focus on smaller customer requirements.
  - **Melbourne:** Princes is considered an important supplier and operates across both accommodation and healthcare linen, with Sunfresh having a presence in accommodation linen. Market feedback suggests that AlSCO is a large supplier in Melbourne, focusing primarily on hospitality and garments customers, while Gouge generally focuses on smaller non-metropolitan healthcare customers.
  - **Adelaide:** Market feedback suggests that Princes currently has a limited presence in Adelaide having only recently established operations in the last few years. Minda primarily focuses on healthcare and is considered an important supplier, while AlSCO appears to focus on garments and hospitality customers.
  - **Perth:** Atlas, Brightwater and Elite primarily focus on accommodation customers. Brightwater may also service a number of small aged care facilities but not hospitals, while AlSCO focuses on garments and hospitality customers.
69. The ACCC considers that there are certain characteristics of larger or established suppliers in each area (including SPL and Spotless Laundries) that may provide a competitive advantage over smaller suppliers, particularly in relation to their ability to compete for larger customers. Established scale competitors typically possess:
- **High laundering capacity.** Large laundering capacity reduces customer concentration risk as the supplier can diversify its customer base across multiple large contracts.
  - **Greater funding capacity, including to purchase linen upfront.** It is industry standard for suppliers to purchase large volumes of linen prior to delivering service. The larger the customer's volume requirement, the higher the upfront spend needed for linen inventory which may be too risky for smaller suppliers to accept. Larger suppliers also receive more attractive wholesale linen rates by utilising their purchasing scale.
  - **Established brand, reliability, reputation and scale.** Larger competitors may be set apart by their established brand, reliability, reputation and scale. This may be particularly important for healthcare / aged care customers, for whom linen is a business-critical item subject to more stringent standards. Larger competitors may be perceived as more reliable, due to having established continuity plans to ensure security of supply (e.g. through arrangements with alternative suppliers or the ability to reallocate capacity across multiple plants).

70. While smaller suppliers may theoretically be able to provide the same commercial laundry service, they may lack the requisite scale, capacity and funding, and may also be less willing to accept large customers due to customer concentration risk.
71. The ACCC understands that there are customers that therefore seek laundry providers with significant scale or reputation, and are unwilling to consider smaller suppliers. The larger suppliers such as the Parties can and do supply both small and large volume commercial customers, but smaller or regional laundries may be less likely to service large volume customers for the reasons above.
72. Relevantly, market feedback suggests that splitting volumes across separate contracts, including within a state, can expand the pool of potential suppliers. However, there are disadvantages such as adverse impacts on costs from lower contracted volumes and increased negotiation and contract management costs due to the higher administration workload.
73. Overall, the ACCC considers that there are a small number of competitors of a similar standing to the parties, namely AlSCO (whose specialisation indicates it is more relevant to garments rather than linen, the primary area of overlap) nationally, Princes and Sunfresh for certain areas, and Lawrence and Minda in single areas. The ACCC is continuing to explore the extent to which smaller suppliers will provide a competitive constraint on the merged entity. This will be a focus of market inquiries following this Statement of Issues. The ACCC is also continuing to consider the degree to which some alternative suppliers may constrain the merged entity via their existing excess capacity, or the ability to expand in future.
74. The ACCC's concerns are primarily in relation to metropolitan customers. The ACCC is also continuing to investigate to what extent regional (non-metropolitan) suppliers are considered alternative suppliers to SPL and Spotless Laundries. It appears that due to large distances from metropolitan-based processing plants, regional customers may rely primarily on regional-focused suppliers, small local suppliers or low-capacity in-house laundries. In some instances, SPL or Spotless Laundries may sub-contract to regional suppliers to service non-metropolitan demand.
75. Consistent with the 'Market definition' above, the ACCC does not consider the Government-owned laundries in Sydney or Melbourne<sup>12</sup> are viable alternatives to the Parties in most cases. The ACCC notes:
  - Market feedback suggests that the charters for publicly-funded institutions generally do not contemplate significant tendering for private contracts. There may be limited circumstances where a government-owned laundry could supply private healthcare customers, such as those in regional or remote locations, where there are little to no private commercial laundry services.
  - While there appears to be a number of government-owned laundries in Victoria, such as Warragul Linen Services, these focus primarily on

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<sup>12</sup> The ACCC is not aware of any remaining Government-owned laundries in the Adelaide or Perth areas.

supplying linen services to public hospitals located in regional or remote locations where there are little to no private commercial laundry services.

- HealthShare is the New South Wales state-owned laundry supplier and appears to focus primarily on supplying linen services to public hospitals.

### **Barriers to entry and expansion**

76. The ACCC considers there are barriers to entry and expansion within each area. Despite these barriers, there are some instances of entry into new areas particularly by existing laundry providers.
77. There appears to be significant capital costs involved in setting up a brand new laundry business to enter a particular area. While small-scale entry at a 30 to 50 tonne per week capacity may incur capital costs of a few million dollars (or less if second-hand equipment can be sourced), the cost of developing a plant that captures the available economies of scale is considerably higher.
78. For example, a modern plant of several hundred tonnes per week capacity exhibits considerably lower per unit capital costs (on a per tonne of laundry per week basis) than a small-scale plant. Therefore, to ensure sufficient scale to both harness the majority of available plant cost efficiencies and be capable of competing for the highest-volume customers against large suppliers such as SPL and Spotless Laundries, it seems necessary to enter with a size of plant well above the technical minimum.
79. The ACCC understands that the initial capital costs of a greenfield facility of a scale that would maximise plant cost efficiencies would be in excess of ten million dollars, with a sizeable proportion of these costs unrecoverable or 'sunk' once incurred.
80. In addition, it can be risky to enter interstate without a prior commitment for customer volumes or by acquiring an existing provider; at the same time, winning contracts with new customers without having an existing facility in a particular area appears to be rare. Therefore, entering interstate on a greenfield basis often appears unattractive due to the combination of the sunk costs and risks involved.
81. The existing laundry suppliers within a particular area may feasibly expand throughput by increasing the number of hours its machines operate. Alternatively, the laundry supplier can install additional machines if there is available floor space.
82. However, as discussed at paragraph 33 above, there appears to be a degree of inertia or 'stickiness' in customers' willingness to switch laundry suppliers, especially to one that is relatively new to a geographic area or customer type. The ACCC considers this reluctance typically stems from customer reservations about the scale, reliability and quality of service offered by a new or unfamiliar supplier. The ACCC accepts that it may also reflect that a customer is satisfied with their current supplier.
83. The ACCC is continuing to consider the barriers to entry for laundry providers to enter into a new area, and the barriers to expansion of existing facilities within an

area, and the effect of the proposed acquisition on barriers to entry and expansion.

### **Customers lack countervailing power**

84. The ACCC accepts that there are customers who in-house their laundry service requirements or have switched to in-house laundering rather than outsourcing their laundry services. However, the ACCC understands that doing in-house linen laundry is generally not a feasible alternative to using an external laundry supplier due to high costs. Customers also appear to consider laundry services as a non-core operation with high operating costs, resulting in a general trend towards using external laundry suppliers.
85. In-house laundry processes are primarily on a much smaller scale, with some sites in-housing laundry services due to legacy processes, as a back-up option or due to their remote location.

The ACCC invites comments from market participants on its concerns in relation to the reduction in competition for the supply of commercial laundry services in the overlapping city-based markets (the Sydney, Melbourne, Adelaide and Perth areas). In particular market participants may wish to comment on the following:

#### For customers of commercial laundry services

- The extent to which SPL and Spotless Laundries compete with and constrain each other in each area – both currently and in the future.
- Whether there are viable alternatives to SPL and Spotless Laundries (for all or some areas and/or customer types).
- Whether you are reluctant to use suppliers new to a linen customer category or item type and if so, whether this is due to concerns about supplier scale, reliability and quality. How difficult would it be for such suppliers to overcome these and any other relevant concerns?
- Whether regional or smaller suppliers are viable alternatives to large or established suppliers like SPL and Spotless, and why.
- Whether large or established suppliers have a competitive advantage over smaller suppliers, and why.
- The ease of switching between laundry suppliers.

#### For commercial laundry suppliers

- The key reasons why suppliers may focus on a particular customer category (or categories). In particular:
  - Does customer hesitancy to select laundry suppliers new to a linen customer or item type category deter suppliers from expanding the range of their services?
  - Are there other significant impediments to serving different linen customer categories or item types and if so, what (e.g. differences in the nature or

quality of services, processes, equipment and logistical capabilities)?

- Any barriers to entry or expansion, both generally as well as into new regions or customer categories.
- The impacts of COVID-19 on your operations, and whether it is feasible to switch output to meet demand from healthcare / aged care customers.
- The relevance of scale to a supplier's competitiveness.
- The relevance of new automation technology to improve efficiencies and enable potentially more attractive pricing.

### **Issue that may raise concerns: reduced competition nationally or across multiple regions**

86. The ACCC is considering whether the proposed acquisition may substantially lessen competition at a national or multi-regional level by combining two of the largest commercial laundry suppliers nationally.
87. The large-scale laundry suppliers operating in all mainland states are SPL, Spotless Laundries and AlSCO. Princes, a multi-state player with a moderate presence, is not active in NSW or WA, while Sunfresh is another multi-state supplier with a presence in Queensland, NSW and Victoria only.
88. As discussed in paragraphs 48 to 50 above, the ACCC's investigation has shown that there may be a subset of commercial laundry customers that value the national or multi-regional supply arrangements, or prefer to engage suppliers with a national or multi-regional footprint.
89. The ACCC's market inquiries to date suggest that this group of customers appears to primarily comprise of garments customers and certain healthcare linen customers. While 'national' customers have not expressed concerns about the proposed acquisition, as SPL is one of only three large laundry suppliers with a presence across most states, the transaction removes any current competitive tension from SPL's national presence, and the possibility of national or multi-regional customers switching to SPL.
90. The ACCC's preliminary view is therefore that a national or multi-regional dimension to competition cannot be ruled out, and a reduction in the number of suppliers with a multi-regional and/or national presence could raise competition concerns. The ACCC is still considering the extent to which any national or multi-regional customers could respond to an attempt by the merged-entity to raise prices or reduce quality by reverting to multiple regional suppliers.

The ACCC invites comments from market participants on its concerns in relation to the reduction in competition for the supply of commercial laundry services nationally or across multiple regions. In particular market participants may wish to comment on the following:

- The questions noted above for regional markets but with respect to a national or multi-regional market or markets.
- For customers that prefer a national or multi-regional supplier, whether there are viable alternatives to SPL and Spotless Laundries for national or multi-regional contracts, including regional or smaller suppliers, and why or why not.

## Issues unlikely to raise concerns: loss of competition in Brisbane and Canberra areas

91. In the Brisbane and Canberra areas, the Parties would have an estimated combined share of under 20% of the commercial laundry market. The Parties are not currently, and would not become, the largest suppliers in either area, with Sunfresh and Princes having a strong presence in Brisbane and Capital Linen, AlSCO and Prestige Linen having a strong presence in Canberra. In both areas, the proposed acquisition would result in only a modest increase in concentration. In the ACCC's market inquiries to date, limited concerns were raised about competition in these areas.
92. The ACCC's preliminary view is that the proposed acquisition is unlikely to substantially lessen competition in the supply of commercial laundry services in the Brisbane or Canberra areas.

The ACCC invites comments from market participants about its preliminary views on whether or not the proposed acquisition is likely to substantially lessen competition in commercial laundry services in the Brisbane or Canberra areas.

## ACCC's future steps

93. As noted above, the ACCC invites 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. Submissions should be emailed to [mergers@acc.gov.au](mailto:mergers@acc.gov.au) by no later than 5pm on **Friday, 18 September 2020**.
94. The ACCC will finalise its view on this matter after it considers submissions invited by this Statement of Issues.
95. The ACCC intends to publicly announce its final view by **Thursday, 26 November 2020**. However the anticipated timeline may change in line with the *Informal Merger Review Process Guidelines*. A Public Competition Assessment explaining the ACCC's final view may be published following the ACCC's public announcement.