

CHAPTER 5

Other suppliers

Hasler (Great Britain) Limited

5.1. Hasler (Great Britain) Limited (Hasler) was incorporated in 1969 to take over distribution in the United Kingdom of the products manufactured by its Swiss parent company, Hasler AG, which had previously been undertaken by an independent distributor. Hasler AG's involvement in postal franking machines began in 1937 when it introduced in Switzerland an electro-mechanical model. In 1952 a simplified manual version was brought out and a further electro-mechanical machine was launched in 1966. When the United Kingdom subsidiary was set up it marketed these two machines. Over the last decade they have been replaced by a range of machines consisting of three basic models catering to the small and medium to large sectors of the market. Details of these machines are included in Appendix 2.1. Its newest machine, the small F1101, was introduced to the United Kingdom market in June 1984.

Corporate structure and management

5.2. Hasler is a wholly-owned subsidiary of Hasler AG. Its equity share capital is owned by Hasler AG through a United Kingdom intermediate holding company, Tele-nova Ltd. The ultimate holding company of the group is Hasler Holding AG. Tele-nova Ltd takes no part in the management of Hasler. Control is exercised directly by Hasler AG through its majority representation on the board. Responsibility for day-to-day running of the company's business is delegated to the managing director who reports directly to the board.

5.3. The company's activities are organised into five divisions. The mailroom equipment division sells postal franking machines, postal scales and shredders. The computer systems division is responsible for design, development and sale of software systems and also for the sale of computer/telex interfaces and telex switching systems. Sale of the company's other products (see paragraph 5.13) is the responsibility of the technical products division. Hasler has a separate engineering department responsible for all maintenance work and an administration division.

Turnover

5.4. Hasler's turnover for the period 1979 to 1984 is set out in Table 5.1.

TABLE 5.1 Hasler (Great Britain) Ltd: turnover, 1979 to 1984

1979	1980	1981	1982	1983	£'000 1984
1,868	2,598	3,147	3,719	4,199	5,826

Source: Hasler (Great Britain) Ltd Annual Report and Accounts.

A breakdown of the company's turnover showing the percentages accounted for by the supply and maintenance of postal franking machines and other activities in the United Kingdom is at Table 5.2. The other activities consist largely of the company's telecommunications business. Further financial information is at paragraph 5.15.

TABLE 5.2 Hasler (Great Britain) Ltd: analysis of turnover, 1979 to 1984

	1979	1980	1981	1982	<i>per cent</i>	
					1983	1984
Supply of postal franking machines	20.8	26.7	43.2	41.8	37.2	40.2
Maintenance of postal franking machines	3.1	6.1	8.8	12.2	13.5	15.0
Other activities	76.1	67.2	50.0	46.0	49.3	44.8
Total	100	100	100	100	100	100

Source: MMC study.

Production

5.5. As indicated in paragraph 5.1, all the postal franking machines marketed by Hasler in the United Kingdom are manufactured in Hasler AG's factories in Switzerland. Hasler does, however, design and develop telecommunications products which are sold internationally. These products are manufactured in the United Kingdom.

Distribution arrangements

5.6. Distribution of the company's postal franking machines is carried out in Great Britain by a direct selling force and in Northern Ireland by an agent who also maintains Hasler machines in the province. In 1984 the company had five sales teams which comprised 27 sales staff. In addition one salesman dealt solely with major accounts. All the company's postal franking machine sales force were involved in the sale of scales and shredders. Postal franking machine salesmen are also largely responsible for the installation of machines. The sales force operates from the company's premises in London (three teams), Birmingham (one team) and Edinburgh (one team) (see Appendix 2.3).

5.7. As indicated in paragraph 2.23, Hasler's postal franking machine sales staff are paid a basic salary plus commission. On average commission accounted for approximately 50 per cent of their total remuneration in 1983 and 1984.

Maintenance arrangements

5.8. Repair and maintenance services for postal franking machines were established in 1969 when the company took over from the previous distributor. Maintenance services are provided from its headquarters in London and its two branches (see Appendix 2.3) and by the company's agent in Northern Ireland.

5.9. Hasler has told us that it did not make it a condition of supply of a postal franking machine or a meter that a maintenance contract was entered into by the user but the company was not prepared to supply postal franking machines to users who wished to do their own maintenance work on bases. The Post Office regulations precluded users maintaining their own meters. If users decided not to take out a maintenance contract, they were advised that they must book the service visits required by the Post Office regulations and these visits were charged at the company's standard call-out rate. Hasler told us that at the end of 1984 approximately 90 per cent of its machines in use were covered by maintenance contracts.

Hasler's terms of supply

5.10. As indicated in paragraphs 2.25 to 2.29, Hasler offers users the option of purchase or leasing on all its postal franking machines. The company does not offer a rental option. Leasing arrangements may be either lease purchase or lease rental (see paragraph 2.27). In the past these options were available through various specialist leasing companies but in 1984 Hasler concluded an agreement with Lloyds Bowmaker plc through which it was envisaged that all the company's leasing business would be conducted in the future. Approximately 25 per cent of the company's sales of postal franking machines in 1984 were made via leasing companies.

Second-hand equipment

5.11. Hasler told us that it supplied second-hand or refurbished machines only if they were manufactured by the group. As the installed base of its machines had been relatively small until recent years the number of used machines offered to it was correspondingly small. Its practice was to refurbish only such machines as could be offered for sale in a state consistent with maintaining the company's reputation as a supplier of reliable high quality equipment and only if the cost of refurbishing was not excessive. If second-hand machines could not meet these criteria they were scrapped. Only a very limited number of second-hand machines have been sold by Hasler.

Spare parts

5.12. Hasler obtains all its spare parts from its parent company, Hasler AG. As indicated in paragraph 5.9, Hasler told us it was not prepared to supply postal franking machines to customers who wished to do their own maintenance. Similarly spare parts were not made freely available to users or to third parties because of the maintenance obligations imposed on the company by its agreement with the Post Office.

Other activities

5.13. In addition to its range of postal franking machines, Hasler supplies a range of other products and services in the United Kingdom including postal scales, shredders, railway tachometers, clock systems, telex systems and computer printers. The company is also involved in the design and development of products and services for computer systems, mostly for telecommunications. Except for the telecommunications products practically all of this equipment is purchased by Hasler from its parent company,

though electronic mailing scales for interfacing with Hasler's F1300 series postal franking machines are bought in from a United Kingdom manufacturer. Approximately one-half of the telecommunications sales are exports.

Pricing policy

5.14. Hasler maintains a price list which is made freely available to all potential customers and which covers the purchase price and maintenance charges for its range of postal franking machines. The standard list prices and maintenance charges for Hasler's postal franking machines as at April 1985 are included in Appendix 2.1. The company told us that in general changes in its prices for postal franking machines arise from increases in transfer prices which are set by the parent company, Hasler AG, and tend to reflect cost increases in Switzerland. Prices are also varied to take account of changes in exchange rates, competitors' price movements and the introduction of new products. The company's policy is to try to maintain list prices for a period of 12 months.

Financial information

5.15. The overall trading results of Hasler are shown in Table 5.3. The company provided us with data which enabled an illustrative exercise allocating profits between reference and non-reference activities to be carried out. The results of this exercise are set out in Tables 5.4 and 5.5. After a long period of adverse trading results, 1984 produced an increase in revenue from both reference and non-reference activities and an improvement in profitability. The company's activities are largely distributive. The expansion in trading did not require a commensurate increase in capital employed. Consequently returns on average capital employed for 1984 show substantial improvements.

TABLE 5.3 Hasler (Great Britain) Ltd: return on sales and capital employed, 1979 to 1984

<i>All reference and non-reference products and services</i>						
	1979	1980	1981	1982	1983	£'000 1984
<i>Historical cost basis</i>						
Revenue	1,868	2,598	3,147	3,719	4,199	5,826
Cost of goods and services sold	(1,319)	(1,934)	(1,657)	(2,096)	(2,430)	(3,095)
Gross profit	549	664	1,490	1,623	1,769	2,731
Gross profit as a percentage of revenue	29	26	47	44	42	47
Research and development, marketing, administration and other costs	(755)	(751)	(1,419)	(1,576)	(1,896)	(2,258)
Operating profit/(loss) before exceptional items, interest and taxation	(206)	(87)	71	65	(127)	473
Average capital employed	1,378	1,192	1,117	1,159	1,513	1,858
Operating profit/(loss) before exceptional items, interest and taxation as % of revenue	(11)	(3)	2	2	(5)	8
Return on capital employed (%)	(15)	(7)	6	6	(8)	25

Source: MMC study from Hasler's management accounts.

TABLE 5.4 Hasler (Great Britain) Ltd: illustrative calculation of return on sales and capital employed, 1979 to 1984

<i>Reference goods and services</i>						
<i>Historical cost basis</i>	1979	1980	1981	1982	1983	1984
Revenue	446	852	1,638	2,007	2,129	3,028
Cost of goods and services sold	(366)	(578)	(993)	(1,136)	(1,133)	(1,682)
Gross profit	80	274	645	871	996	1,346
Gross profit as a percentage of revenue	18	32	39	43	47	44
Marketing and administration costs	(284)	(363)	(719)	(935)	(1,103)	(1,191)
Operating profit/(loss) before exceptional items, interest and taxation	(204)	(89)	(74)	(64)	(107)	155
Average capital employed	329	391	581	625	767	966
Operating profit/(loss) before exceptional items, interest and taxation as % of revenue	(46)	(10)	(5)	(3)	(5)	5
Return on capital employed (%)	(62)	(23)	(13)	(10)	(14)	16

Source: MMC study from Hasler's management accounts.

TABLE 5.5 Hasler (Great Britain) Ltd: illustrative calculation of return on sales and capital employed, 1979 to 1984

<i>Non-reference activities</i>						
<i>Historical cost basis</i>	1979	1980	1981	1982	1983	1984
Revenue	1,422	1,746	1,509	1,712	2,070	2,798
Cost of goods and services sold	(953)	(1,356)	(664)	(960)	(1,297)	(1,413)
Gross profit	469	390	845	752	773	1,385
Gross profit as a percentage of revenue	33	22	56	44	37	50
Research and development, marketing and administration costs	(471)	(388)	(700)	(623)	(793)	(617)
Operating profit/(loss) before interest and taxation	(2)	2	145	129	(20)	318
Average capital employed	1,049	801	536	534	746	892
Operating profit/(loss) before interest and taxation as % of revenue	(0.1)	(0.1)	10	8	1	11
Return on capital employed (%)	—	—	27	24	(3)	36

Source: MMC study from Hasler's management accounts.

Scriptomatic Limited

5.16. Scriptomatic Limited (Scriptomatic) entered the United Kingdom market for postal franking machines in July 1983 when it took over the distribution of the range of machines manufactured in Switzerland by Frama AG. Frama's machines were originally introduced into the United Kingdom in 1982 by Mailing and Mechanisation Ltd which marketed them until it went into liquidation early in 1983. Initially Scriptomatic provided service and support to the existing installations but began marketing and distributing new equipment itself in October 1983. Scriptomatic told us that it had

primarily been concerned with the distribution and maintenance of card addressing systems purchased from its immediate parent company, Scriptomatic SA of Geneva. In 1982 the company began selling automatic label appliers.

Corporate structure

5.17. Scriptomatic forms part of the GEC group. The company's equity share capital is 100 per cent owned by Scriptomatic SA of Geneva, a wholly-owned subsidiary of Scriptomatic Inc of Philadelphia which is 100 per cent owned by The General Electric Company PLC (GEC), the ultimate holding company. Although the GEC group has other interests in office equipment, its postal franking machine interests are confined to Scriptomatic in the United Kingdom and to a German associate company of Scriptomatic, Scriptomatic GmbH, which acts as a distributor of Hasler machines.

Management structure

5.18. The organisational control of Scriptomatic follows the same pattern as the corporate structure set out in paragraph 5.17. The control and management of Scriptomatic as far as it affects the supply and maintenance of postal franking machines in the United Kingdom is exercised through the managing director of the company who reports to the president of Scriptomatic SA, Switzerland. The president of Scriptomatic SA, Switzerland, in turn reports to Scriptomatic Inc in the United States of America which reports to a main board member of GEC.

Turnover

5.19. Until October 1983 the company's turnover consisted entirely of sales of addressing and labelling equipment. In 1983-84 Scriptomatic's total turnover was £1,217,121; turnover in respect of the supply and maintenance of postal franking machines was £213,565 in 1983-84 and £636,849 in 1984-85.

Distribution arrangements

5.20. Scriptomatic distributes postal franking machines in London and the Home Counties by its own sales force. Sales coverage outside this area is effected by two independent distributors: Total Mailroom Systems of Manchester services the North of England and Scotland from premises in Manchester and Glasgow, and Channel Mailing Systems based in Bristol covers the South-West of England. Scriptomatic maintains separate sales forces for its postal franking machines and its other products. Salesmen are remunerated by a mixture of salary and commission.

Maintenance arrangements

5.21. Scriptomatic's repair and maintenance service is provided by its directly-employed engineers in London and the Home Counties and by directly-employed engineers of Total Mailroom Systems and Channel Mailing Systems in the areas in which they provide sales coverage.

5.22. Scriptomatic considers that the Post Office regulations require it to be responsible for maintaining the meters of the machines. For this reason customers have the option of either a standard maintenance agreement covering the requirements of the Post Office only or a maintenance agreement giving more comprehensive cover. The company considers that the Post Office regulations preclude it from supplying a postal franking machine to a customer who wishes to make his own servicing arrangements.

Scriptomatic's terms of supply

5.23. Scriptomatic offers users for all its machines the option of purchase directly from the company or lease rental or lease purchase through a third party leasing company. The company does not rent its postal franking machines. In 1984 approximately 75 per cent of sales of postal franking machines were made via leasing companies.

Second-hand equipment

5.24. As Scriptomatic's machines have been available in the United Kingdom only for a limited period the company has no supply of second-hand machines available. It told us that its policy would be to refurbish all machines when it would be economical to do so. Refurbished machines would be made available for resale either as second-hand, refurbished or ex-demonstration.

Spare parts

5.25. As indicated in paragraph 5.22, Scriptomatic's policy is that only its own engineers or its appointed distributor's engineers may carry out servicing on the postal franking machines it supplies. In these circumstances spare parts are made available only to authorised distributors and authorised service personnel.

Prices and pricing policy

5.26. Scriptomatic told us that the only factors it takes into consideration when determining the United Kingdom list price of its machines are the landed price plus the sales cost plus a profit factor. These factors are adhered to strictly except in the case of its most basic model where the pricing is more flexible in order to make that machine a little more competitive as against the small models of other suppliers.

5.27. The company's prices are always quoted in cash terms. If customers wish to finance their purchases by using a leasing company the cash price is converted into the leasing company's charges using its standard terms and conditions. Price lists are made freely available to customers but the company does not provide written statements of the special prices it negotiates for major accounts or for customers within the GEC group. The standard list prices and maintenance charges for Scriptomatic's main models as at April 1985 are included in Appendix 2.1.

5.28. Scriptomatic told us that some discounts and rebates were negotiated where orders were for multiple units. In addition it maintained special prices

for major account groups and for inter-group business. The company had no general system of rebates or discounts for its maintenance charges irrespective of the size of the user.

Envopak Group Sales Ltd

5.29. Envopak Group Sales Limited (Envopak) markets postal franking machines produced in the Federal Republic of Germany by Francotyp-Postalia. Envopak first entered the market when it received Post Office approval in October 1983 to distribute a large, heavy-duty Francotyp machine. It has since extended its range with four Postalia machines, one of which was sold by Roneo Alcatel until November 1983, and the Francotyp MS5 a basic model suitable for small users. A large Francotyp machine with an electronic meter capable of interfacing with electronic mailing scales is currently being tested by the Post Office and Envopak hopes that this will be on sale by early 1986.

Corporate structure

5.30. Envopak was incorporated in 1980 as a wholly-owned subsidiary of Envopak Group Limited as the group's sales and marketing company. It is a major supplier of re-usable envelopes, mailroom furniture and equipment and security sealing systems.

Turnover

5.31. The Envopak group's turnover in 1984 amounted to £9.6 million. This consisted almost entirely of the company's re-usable envelope and security sealing systems, plastic products and mailroom equipment (excluding postal franking machines). Sales of postal franking machines amounted to £98,423 in 1984 and to £162,650 in the first six months of 1985.

Distribution arrangements

5.32. Envopak distributes its postal franking machines in the United Kingdom through its direct selling force for re-usable envelope systems and mailroom equipment and through specialised postal franking machine salesmen. The postal franking machine salesmen follow up sales leads obtained by the selling force distributing the company's other products.

Maintenance arrangements

5.33. Envopak told us that in 1983 it had entered into an agreement with C Stevens & Son (Weighing Machines) Ltd (Stevens) under which Stevens provided maintenance services on a nation-wide basis for postal franking machines supplied by Envopak. The Envopak group has a shareholding in Stevens and has appointed a director to the Stevens' board. Envopak told us that the group had set up a separate joint company with Stevens to undertake servicing work with effect from 1 November 1985. The new company, Stevens Envopak Servicing Ltd has service engineers who operate out of eight sales and service depots (see Appendix 2.3). In addition Envopak itself has engineers based at its headquarters in Sidcup who service some machines.

5.34. Stevens' main activity is the manufacture, supply and maintenance of a wide range of weighing and measuring equipment, including electronic mailing scales (see paragraph 7.26).

5.35. Envopak gives one year's full guarantee on the postal franking machines it supplies. Thereafter customers are required to take out a maintenance agreement with the company irrespective of whether the form of supply is purchase, lease purchase or lease rental. Maintenance contracts guarantee two service calls every six months plus any call-outs for breakdowns. Spare parts except for electronic meters are also included.

Terms of supply

5.36. The options available to customers from Envopak are purchase or leasing. Lease purchase and lease rental are effected via several specialist leasing companies. In 1984 approximately 15 per cent of the machines supplied by the company were leased. A condition of supply is that the machine is fully maintained either by Envopak or by Stevens.

Second-hand equipment and spare parts

5.37. As Envopak's machines have been available in the United Kingdom only for a limited period the company has no supply of second-hand machines available. The company told us it would be prepared to supply its own machines factory reconditioned. As indicated in paragraph 5.35, it is a condition of supply that machines are maintained only by Envopak or Stevens and spare parts are therefore available only to Envopak's own service organisation.

Prices and pricing policy

5.38. Prices and maintenance charges for Envopak's postal franking machines as at April 1985 are included in Appendix 2.1. The MS5 machine, which was introduced later, retails at £675. The company told us that it determined its list prices by taking into account the transfer prices charged by its German suppliers and other costs such as freight, insurance, carriage and an element for the first year guarantee for maintenance and repair. Discounts were offered only to Government departments or multiple users.

5.39. Potential customers are supplied with a price list setting out the purchase price and the monthly rental under a five-year lease rental agreement together with the maintenance contract rates charged.