

Anticipated acquisition by EVO Business Supplies Limited (part of Endless which also controls Vasanta Group) of Office2Office plc

ME/6459-14

The CMA's decision on reference under section 33(1). Full text of the decision published on 14 November 2014.

Please note that the square brackets indicate figures or text which have been deleted or replaced in ranges at the request of the parties for reasons of commercial confidentiality.

Summary

1. Vasanta Group Limited (**Vasanta**) and Office2Office plc (**O2O**), together the **Parties** provide a range of business services (including office stationery) through the wholesale and contract stationery route. The anticipated transaction (the Merger) entails the acquisition of O2O by Evo Business Supplies Limited (**EVO**) a wholly owned subsidiary of Endless LLP (**Endless**) who in turn control Vasanta.
2. The Competition and Markets Authority (**CMA**) considers that the Parties will cease to be distinct and that the turnover test is met. Therefore, it considers that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation pursuant to section 23(2) of the Enterprise Act 2002 (the **Act**). The CMA's statutory timetable for a decision expires on 20 October 2014.
3. The Parties overlap in the supply of business services both as wholesalers and contract stationers. Since O2O is not a traditional wholesaler, there is limited overlap at the wholesale level. The CMA further considers that the Parties' combined shares of supply in the contract stationer channel in the UK are moderate and that they face several competitors, including two with a greater share of supply. There is no evidence that the Parties are closer competitors than their respective shares of supply would suggest, customer contracts are generally tendered and switching appears to take place regularly and customers are price sensitive. The CMA therefore found that the

Merger does not give rise to a realistic prospect of a substantial lessening of competition as a result of horizontal unilateral effects in relation to the supply of business supplies in neither the wholesale nor the contract stationery channel.

4. The CMA has also examined the extent to which the Merger may give rise to vertical effects. In summary, the CMA considers that, on the basis of the evidence available to it, the Parties do not have the ability to foreclose competing contract stationers or competing wholesalers from the supply of business services due to the number of alternative competitors in the market. The CMA, therefore, considers that it is unlikely that the Merger will give rise to any anti-competitive vertical effects.
5. The CMA considers that on the basis of the evidence available to it there is no realistic prospect of a substantial lessening of competition will arise as a result of the Merger.
6. The Merger will therefore **not be referred** under section 33(1) of the Act.

Assessment

Parties

7. Endless is a private equity firm based in Leeds which has various companies within its portfolio and has complete discretion over the investment of its funds. In 2013, the worldwide turnover of the businesses under the control of Endless was [REDACTED]. One of the companies controlled by Endless, and the only one relevant to the Merger, is the Vasanta Group which it acquired in 2009.
8. Vasanta is a company of which all the voting shares are owned by investment funds managed by Endless. Vasanta is principally ([REDACTED] of turnover) a wholesaler of business supplies under the trade names VOW and VOW Retail to intermediate customers who are typically resellers of business supplies and contract stationers. Business supplies covers a wide range of products used by businesses such as office products, including paper and stationery, through to office services and facilities equipment. Vasanta has a smaller division, which trades under the name Supplies Team Solutions and acts as a contract stationer (accounting for [REDACTED] of turnover), selling business supplies to end-user business customers. Vasanta's total turnover in 2013 was £415 million ([REDACTED] in the UK).
9. The shares in O2O, the target company in the Merger, are listed on the London Stock Exchange. O2O is principally a contract stationer using the trade name Banner. The UK turnover of O2O for the financial year ended

31 December 2013 was £225 million. O2O describes its role in contract stationery as 'managed procurement' and does a small amount of wholesaling (using the trading name Truline). These activities account for [X] of its turnover. The remaining turnover (about [X]) comes from providing print management and marketing services and the secure disposal services for confidential documentary waste. There is no overlap with Vasanta in these services and therefore they are not considered further.

10. EVO has been established for the purpose of the Merger and is wholly owned by Endless.

Transaction

11. The Merger will result in the acquisition by EVO of the entire issued and to be issued share capital of O2O. At the same time as the Merger, EVO will enter into a conditional acquisition agreement for the acquisition of the entire share capital of Vasanta.
12. The Merger will be effected by virtue of a takeover bid under the UK Takeover Code and will be implemented by way of a Court-sanctioned scheme arrangement under the Companies Act 2006. Once the scheme becomes effective, Endless, through its subsidiary EVO, will own the entire share capital of O2O as well as Vasanta.
13. The Parties submit that the rationale for the Merger is the need for [X].

Jurisdiction

14. The CMA received a satisfactory merger notice on 22 August 2014 and the statutory deadline for a decision by the CMA is 20 October 2014.
15. As a result of the Merger, the enterprises of Vasanta and O2O will cease to be distinct and both will be under the control of Endless. The UK turnover of O2O exceeds £70 million, so the turnover test in section 23(1)(b) of the Act is satisfied.
16. The CMA therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

Product frame of reference

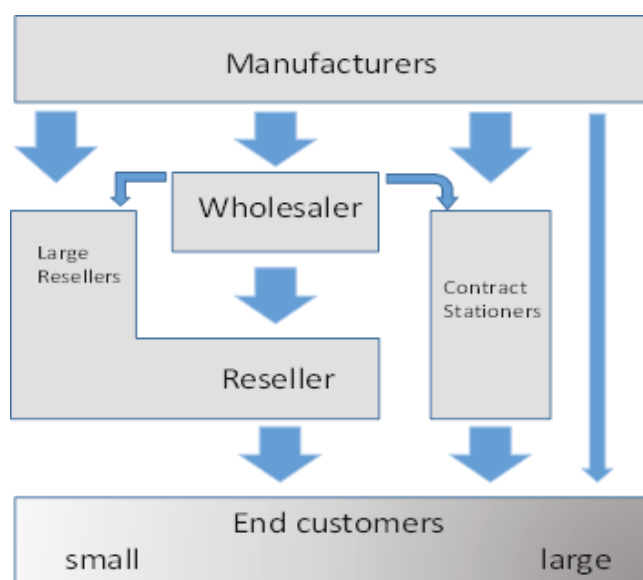
17. The CMA considers that market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement. The boundaries of the market do not determine the outcome of the analysis of

the competitive effects of the merger, as it is recognised that there can be constraints on merging parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others.¹

18. The Parties overlap in both the wholesale and in the distribution as contract stationers of business supplies. Neither Vasanta nor O2O are involved in the manufacture of business supplies.
19. Figure 1 below shows the different distribution channels within business services.

FIGURE 1

Different distribution channels within the business services sector



Source: CMA figures based on information provided by the Parties.

20. Wholesalers of business services acquire a wide range of business supplies acquired in bulk from manufacturers and sell them in smaller quantities to intermediaries (resellers) such as dealers, independent high street stores or contract stationers. Resellers sell business services to end-user customers, buying from manufacturers, broad line wholesalers and specialist wholesalers. Resellers often join dealer groups, which allow individual dealers to pool requirements and benefit from increased negotiating power and form a function equivalent to wholesaling (although they do not hold stock). Contract stationery suppliers are a one-stop stationery supplier for medium to large

¹ *Merger Assessment Guidelines* (OFT1254/CC2, September 2010), paragraph 5.2.2. The *Merger Assessment Guidelines* have been adopted by the CMA (see Annex D to *Mergers: Guidance on the CMA's Jurisdiction and Procedure*, CMA2, January 2014).

business customers with contracts usually the result of a competitive tender process.

21. The Parties submitted that the narrowest plausible candidate market is the supply of the different categories of business supplies in each of the broad line wholesaler and contract stationer distribution channels. However, the Parties submitted that the relevant product frame should be wider, namely the supply of business supplies through all the possible distribution channels. According to the Parties the customer has the ability to switch between different distribution channels and this is facilitated by the open contractual arrangements between the Parties and customers.
22. The CMA's market testing indicated that particularly large customers of wholesalers (wholesale customers) can find alternative sources for high-volume requirements through direct supply from manufacturers, however, smaller wholesale customers are more limited in finding alternative channels. Furthermore, low-volume requirements of large customers are also considered difficult to move away from wholesalers. Additionally, third parties indicated that there are different alternative sources depending on the product category, for example, through specialist wholesalers.
23. Customers of contract stationers stated that they would look for alternative sources in case of a price increase but some indicated that due to transaction costs it was not feasible to switch a substantial proportion of the purchases away from a contract stationer.
24. In a previous case² the EC considered separate product markets for the wholesale of traditional office supplies and the wholesale of IT products as well as a separate market for contract stationery.
25. The CMA's approach to product market definition is generally to consider first if narrow candidate markets can be widened through substitution on the demand side, and then to consider supply-side substitution.³ Therefore, the CMA has considered below whether the evidence suggests that the following candidate markets where the Parties overlap can be widened by demand-side substitution in the first instance, or subsequently through supply-side substitution:
 - supply of business supplies through wholesalers, segmented by product category

² Unipapel/Spicers (case M.6382), EC decision of 20 December 2011.

³ See [Merger Assessment Guidelines](#), paragraphs 5.2.6 to 5.2.19.

- supply of business supplies through contract stationers, segmented by product category

Wholesaling

26. To define the relevant product frame of reference for the supply of business supplies through wholesalers, the CMA has considered the following key questions:
- whether customers considered the supply from specialist wholesalers or direct supply from a manufacturer as an alternative for the supply from broad line wholesalers; and
 - whether different product categories are within the same frame of reference.

Broad line wholesalers, specialist wholesalers and direct supply from manufacturers

27. The Parties submitted that there are broad line wholesalers and specialist wholesalers for business supplies. Broad line wholesalers like VOW (Vasanta) and Spicers buy a very wide range of business supplies in bulk from manufacturers and sell them in smaller quantities to intermediaries (resellers) such as dealers, independent high street stores or contract stationers. The number of product lines stocked is high (in the case of Vasanta [X] SKUs⁴) across all categories of business products. According to the Parties, specialist wholesalers (for example, Westcoast) have a similar business model but specialise in fewer product categories and, overall, carry fewer products.
28. The Parties further submit that wholesale customers tend to purchase from more than one wholesaler to retain the ability to compare offerings and switch orders rapidly to deal with out-of-stock situations. Vasanta stated that it supplies around [X] on average of its resellers' total spend.
29. The CMA contacted wholesale customers to investigate the scope for demand-side substitution from all possible channels (broad line, specialist wholesaler and direct supply from manufacturer) and asked them how they buy business supplies and how they would react to a price increase from broad line wholesalers.
30. Wholesale customers of Vasanta stated that they have a preferred wholesaler but in addition have a large number of other sources. Customers benchmark

⁴ Stock Keeping Unit: this is a distinct item, such as a product or service.

prices of products against other sources but the frequency of benchmarking depends on the type of product ranging from daily comparison to instances when the wholesaler advises price increases. Large contract stationers indicated that they do purchase from wholesalers, however, these purchases are for mainly non-core (low-volume) requirements and account for below 5% of their overall purchases.

31. One contract stationer customer responded that it would find it difficult to source the non-core requirements from sources other than from a broad line wholesaler or a specialist wholesaler (for IT and electronic office supplies (EOS)⁵), if facing a 5% price increase. Two other large customers responded that they would try to find alternative sources following a 5% price increase from broad line wholesalers. However, this would be easier for high-volume products and product categories where specialist suppliers operate (IT, EOS, paper).
32. The CMA noted that this suggests that for high-volume purchases direct supply from manufacturers may be able to substitute the supply from wholesalers. However, purchases by small customers as well as low-volume requirements by large customers are generally purchased from wholesalers. Customers consider specialist wholesalers for these purchases as an alternative to the extent that they are active in the respective product category. The CMA has assessed this Merger with the frame of reference including both broad line wholesalers and specialist wholesalers, but excluding direct supply from manufacturers. However, the CMA notes that it is not necessary to conclude on the exact delineation as the Merger does not raise concerns under any plausible segmentation.

Segmentation by product categories

33. The boundaries of the relevant product market are generally determined by reference to demand-side substitution alone. However, the CMA may consider aggregating several narrow relevant markets into one broader market on the basis of considerations about the response of suppliers to changes in prices.⁶ With regards to supply-side substitution the Parties submit that there are low supply-side switching costs for supplying different products at the wholesale level.
34. Based on third party responses and publicly available information, the CMA noted that different wholesalers operate across different product categories:

⁵ EOS and IT products such as toners, printer suppliers and computer supplies.

⁶ See [Merger Assessment Guidelines](#), paragraph 5.2.17.

- **Traditional stationery** is supplied at the wholesale level mainly by broad line wholesalers; manufacturers only supply in bulk to large resellers.
 - **EOS (electronic office supplies)** and **IT products** are supplied by specialist wholesalers such as Westcoast/XMS and TechData as well as broad line wholesalers.
 - **Paper** is supplied by broad line wholesalers and by paper merchants.
 - **Furniture** is supplied by broad line wholesalers and also directly supplied by manufacturers/distributors.
35. The CMA has received no evidence that suggests that wholesalers have the ability and the incentive to quickly introduce new product categories depending on the demand for each product category.⁷ The CMA notes that the market entry of Beta and Gem into the wholesaling of traditional stationery is a long-term engagement⁸ and not relevant with regards to short-term supply-side substitution in the context of market definition.

Conclusion on wholesale frame of reference

36. Due to the limited supply-side substitution and the different market structure across the various product categories, the CMA has, on a cautious basis, assessed this merger on the basis of separate frames of reference within the wholesale market:
- **Traditional stationery.** This includes writing instruments, filing and archive, general office supplies, envelopes, diaries/organisers, packaging and mailroom supplies, books and pads.
 - **EOS and IT products.** This includes printer cartridges, toners, data storage media, computer accessories (like keyboards), small business machines like desktop printers, fax machines, calculators, and IT products such desktop computers, laptops, tablets, networking and communications devices.
 - **Paper.** This includes copier and printing papers.
 - **Furniture.** This refers to business furniture including desks and seating.

⁷ See [Merger Assessment Guidelines](#), paragraph 5.2.17.

⁸ According to the Parties, Beta and Gem have been expanding their specialist wholesaler range by including more SKUs and have been slowly increasing their share of supply over the past few years.

37. The CMA notes that it is not necessary to conclude on the exact delineation of each product category, as the Merger does not raise concerns under any plausible segmentation.

Contract stationery

38. To define the relevant product frame of reference for the supply of business supplies through contract stationers, the CMA has considered the following key questions:
- whether customers considered the supply from other sources an alternative for the supply from contract stationers; and
 - whether different product categories are within the same frame of reference.

Supply through contract stationers versus other sources

39. Contract stationery suppliers are a one-stop stationery supplier for medium to large business customers with contracts usually the result of a competitive tender process. Customers mentioned various benefits of purchasing from a contract stationer compared to other sources, indicating that a key factor was the offer of a wide product range.
40. The CMA asked third parties about what the impact of a price rise may be on their purchasing decisions. Facing a 5% increase from all contract stationers, one customer indicated that it might have to accept the price increase for traditional stationery and EOS products due to the transaction cost involved to purchase smaller volumes from various dealers. However, it would consider purchasing its paper from other sources. Similarly, another customer stated that it would try to find alternative sources for high-volume products but that it was not feasible to replace contract stationers completely due to the logistics and transaction costs involved. One contract stationer indicated that it was inconceivable that prices would ever increase across the board by 5% since the sector experiences shrinking demand and fierce competition. Even if a price increase on this basis were possible, customers would certainly move to alternative sources of supply.
41. Based on the evidence set out above, the CMA considers that some customers may, at least to some extent, procure business supplies from other sources when facing a permanent price increase. However, other customers may not be able to switch a substantial share of their purchases to alternative sources due to high transaction costs. While the evidence suggests that some customers may switch to some extent in the event of a price increase, there is

insufficient evidence to suggest that it would render such a price rise unprofitable, particularly as customers mentioned various benefits of contract stationers over alternatives. The CMA, therefore, considers that demand-side substitution is too limited to widen the candidate market.

Segmentation by category

42. The CMA has considered whether to aggregate several narrow product market markets segmented by product category to one broader market on the basis of considerations about the response of suppliers to changes in prices.⁹
43. The CMA received information about tenders for contract stationery from the Parties. The CMA notes that contracts mostly comprise products of the following product categories: stationery, EOS, IT products, facilities supplies and paper. The CMA notes that all major contract stationers carry products of these common product categories. Some contracts are limited to products of one category, whereas others contain various product categories, however the major contract stationers tender for contracts across product categories.
44. Based on this evidence, the CMA considers that there is sufficient supply-side substitution to aggregate the product categories.

Conclusion on contract stationery frame of reference

45. For the purposes of the competitive assessment, the CMA has assessed this Merger on the basis of the product frame of reference being the supply of business supplies through contract stationers. However, given the lack of competition concerns in this case under any frame of reference, it was not necessary for the CMA to conclude on whether the appropriate frame of reference is wider.

Geographic frame of reference

46. The Parties submit that the narrowest plausible candidate geographic scope of reference for the supply of business supplies is the UK. They state that suppliers employ a national business and pricing strategy and supply throughout the UK. A provider of business supplies does not need to have an existing presence in a particular region in order to be able to provide the required service level and delivery times can be performed from central

⁹ See [Merger Assessment Guidelines](#), paragraph 5.2.17.

warehouses¹⁰. The Parties stated that customers are mainly concerned with pricing and next day delivery with no regard to the proximity of the supplier.

Wholesaling

47. The CMA considered in its assessment whether the price and service offering of suppliers varied within the UK and whether wholesale customers were able to purchase from alternative sources outside the UK if faced with a 5% price increase from UK suppliers.
48. One third party customer that operates across Europe told the CMA that its wholesale arrangements are national in scope.
49. Another third party customer responded to the CMA that if faced with a price increase of all UK suppliers it would have to accept it.
50. A large contract stationer indicated that if faced with a price increase for business supplies in the UK it would switch purchases for core (high-volume) requirements to manufacturers outside the UK. However, the CMA notes that direct sourcing is only possible for very large customers due to required high volumes. The CMA considers that small dealers purchase at a much lower scale and therefore may have limited possibilities to procure from alternative sources outside the UK.
51. The CMA has not received any evidence that suggests that competitive conditions vary within the UK.
52. In Unipapel/Spicers¹¹ the EC merger investigation largely confirmed that the wholesale of office products was national, but ultimately left it open whether it was national or EEA-wide. For the wholesale of IT products it was considered less clear but it was ultimately left open.
53. Therefore, on a cautious basis, the CMA has assessed the Merger based on geographic frame of reference being national in scope. However, in the absence of competition concerns on this basis, it has not been necessary for the CMA to conclude on the geographic market for wholesaling.

Contract stationery

54. The CMA has considered whether there are any regional issues in contract stationery to be considered. Third parties indicated that there are no pricing

¹⁰ [REDACTED] O2O has two central stocking warehouses in Manchester and Basingstoke that store high-volume lines and product categories.

¹¹ Unipapel/Spicers (case M.6382), EC decision of 20 December 2011.

variations across the UK when they are being supplied by a single contract stationer. However, two customers stated that the Parties had a strong position as contract stationers in Northern Ireland and other contract stationers were less present.

55. Third party responses and publicly available information indicates that the major contract stationers operate throughout the UK including Northern Ireland.
56. In *Buhrmann/Samas*¹² the EC found the market for business-to-business office supplies products to be national in scope for contract stationery.
57. The CMA assessed this Merger based on a relevant geographic frame of reference being the UK. Any variation in competitive conditions between Northern Ireland and the UK is considered in the competitive assessment. However, in the absence of competition concerns on any basis, it has not been necessary for the CMA to conclude the geographic market for contract stationery.

Conclusion on frame of reference

58. For the reasons set out above, the CMA has assessed the impact of the Merger on the basis of supply of the following categories in the UK:
 - wholesale of each of traditional stationery, EOS and IT products, paper and furniture
 - contract stationery for all business supplies

Counterfactual

59. The CMA assesses the Merger's impact relative to the situation that would prevail absent the merger (that is, the counterfactual). In practice, the CMA generally adopts the pre-merger conditions of competition as the counterfactual against which to assess the impact of the merger. However, the CMA will assess the merger against an alternative counterfactual where, based on the evidence available to it, there is a realistic prospect of a different counterfactual.¹³
60. The Parties have suggested that the current competitive situation is not the appropriate counterfactual in which to assess the Merger. The Parties have stated that the appropriate counterfactual should take into account recent

¹² *Buhrmann/Samas Office Supplies M.2286*, EC decision of 11 April 2001.

¹³ See [Merger Assessment Guidelines](#), paragraph 4.3.5 et seq.

trends in the market such as the significant decline for traditional office products, over-capacity in the multi-layered distribution channels for business supplies, recession and pressure on margins, the delayering of supply chains, competition for end users' business from online resellers, desire for dealers to become stockless and the increased transparency of the sector which allow for shopping around.

61. In addition, the Parties have stated that the counterfactual should take into account the recent acquisition (announced on 25 July 2014) by the owners of Spicers (the Parties' main competitor in the broad line wholesale distribution channel) of Office Team (a contract stationer).
62. Generally, the CMA assesses mergers against the prevailing conditions of competition. The CMA notes that the market trends described by the parties form part of the prevailing conditions of competition and do not warrant a different counterfactual. The CMA has therefore taken account of these trends in its competitive assessment of the Merger.
63. With regards to parallel transactions, the CMA generally takes a cautious approach and is likely to consider whether the transaction under review creates a realistic prospect of a substantial lessening of competition whether or not the parallel transaction proceeds.¹⁴ The CMA has considered the impact of the Spicers and Office Team merger in the competitive assessment.

Competitive assessment

Horizontal unilateral effects

64. Unilateral horizontal effects can arise when one firm merges with a competitor that previously provided a competitive constraint, allowing the merged firm profitability to raise prices (or degrade services) on its own and without needing to coordinate with rivals.¹⁵ Unilateral effects may arise because a price increase becomes less costly when the products of the two firms are brought under common ownership or control.¹⁶

Wholesaling

65. The Parties were not able to provide shares of supply for the wholesale of each product category. Instead, the Parties provided shares of supply for broad line wholesalers that operate across all product categories but which do

¹⁴ See [Merger Assessment Guidelines](#), paragraph 4.3.26.

¹⁵ See [Merger Assessment Guidelines](#), Section 5.4.

¹⁶ See [Merger Assessment Guidelines](#), paragraph 5.4.7.

not include specialised wholesalers. The CMA considers that the shares of supply in this market provide only a rough indication of the actual market conditions and overstate the Parties' market power since they would be lower if specialist wholesalers were added. Therefore, the CMA in its assessment places only limited weight on them.

TABLE 1 Share of supply estimates in respect of broad line wholesaling of business products in the UK 2011–2013¹⁷

Supplier	2013		2012		2011	
	Revenue (£m)	Share (%)	Revenue (£m)	Share (%)	Revenue (£m)	Share (%)
VOW (Vasanta)	[X]	[40–50]	[X]	[30–40]	[X]	[30–40]
O2O	[X]	[0–10]	[X]	[0–10]	[X]	[0–10]
Combined	[X]	[50–60]	[X]	[40–50]	[X]	[30–40]
Spicers	[X]	[40–50]	[X]	[40–50]	[X]	[50–60]
Beta	[X]	[0–10]	[X]	[0–10]	[X]	[0–10]
Gem	[X]	[0–10]	[X]	[0–10]	[X]	[0–10]
Total	[X]	100	[X]	100	[X]	100

Source: Parties' estimates.

66. Table 1 shows that there are two large broad line wholesalers in the UK, VOW and Spicers. However, Spicers' share of supply has been decreasing substantially over recent years. The Parties submitted that Gem and Beta have traditionally been specialist wholesalers for IT and EOS products but have been expanding their product range over the past five years to include stationery and other business supplies.
67. Table 1 also shows that overall sales revenues have decreased substantially since 2011. The Parties stated in this respect that there is a significant decline in demand for traditional office products, as electronic and digital office technologies replace paper-based ones.

O2O as a wholesaler

68. According to the Parties, O2O started providing a dealer group, Advantia, with office products as a wholesaler under the Truline logistics service in 2013 and currently holds a share of supply of [0–10]%. [X]
69. The Parties submit that the service provided to Advantia is a 'managed supply chain service' and not a traditional wholesale service. The service offered to Advantia enables the dealers to:
- [X]
 - [X]

¹⁷ Figures do not add up to 100% due to rounding.

- [REDACTED]
70. The prices and ranges of products negotiated with Advantia are based on the O2O contract range with the additional products sourced through other distribution channels, including broad line and specialist wholesalers. O2O's range of products on stock ([REDACTED]) is much smaller than that of a traditional wholesaler (Vasanta stocks [REDACTED]). The rationale for entering into the contract with Advantia was [REDACTED]. However, O2O has publicly stated that it has no intention to expand further in the wholesale channel. This view is supported by third parties who consistently commented that they do not consider O2O/Truline as a wholesaler for business services.
71. The CMA notes that a key feature of a broad line wholesaler is to stock a very broad range of products in its warehouses and that O2O does not hold such a broad range of products in stock. Instead, O2O provides services similar to a contract stationer that carries a smaller range of products. The CMA has not received any evidence that suggests O2O intended to expand further into the wholesale channel.
72. Overall, the CMA considers that the Parties do overlap in the wholesale channel but only to a limited extent. Due to the different business model of O2O and the fact that customers do not regard O2O as a wholesaler, the CMA considers that the other broad line or specialist wholesalers have not been constrained significantly by O2O pre-merger and, thus, any merger specific effect in the wholesale channel is limited.
73. The CMA notes that its assessment is not materially affected as to whether the transaction between Spicers and Office Team does proceed or not, as Office Team does not have a significant presence as a wholesaler.

Conclusion on wholesale channel

74. Due to the limited horizontal overlap at the wholesale channel, the CMA considers that the Merger does not give rise to horizontal unilateral effects at the wholesale level. As the limited horizontal overlap applies to all product categories, the CMA does not consider it necessary to assess each product category separately.

Contract stationery

75. The Parties provided the following shares of supply.

TABLE 2 Share of supply estimates in respect of business supplies in the contract stationery channel in the UK between 2011 and 2013¹⁸

Supplier	2013		2012		2011	
	Revenue (£m)	Share (%)	Revenue (£m)	Share (%)	Revenue (£m)	Share (%)
Vasanta	[X]	[0-10]	[X]	[0-10]	[X]	[0-10]
O2O	[X]	[10-20]	[X]	[10-20]	[X]	[10-20]
Combined	[X]	[20-30]	[X]	[20-30]	[X]	[20-30]
Office Depot	[X]	[30-40]	[X]	[30-40]	[X]	[20-30]
Lyreco	[X]	[20-30]	[X]	[20-30]	[X]	[20-30]
Spicers/Office Team ¹⁹	[X]	[10-20]	[X]	[10-20]	[X]	[10-20]
Staples	[X]	[10-20]	[X]	[10-20]	[X]	[10-20]
Total	[X]	100	[X]	100	[X]	100

Source: Parties' estimates in merger notice.

76. Table 2 shows that the Parties will have a moderate share of supply of around [20-30]% post-Merger. Four other significant competitors remain in the market including Office Depot and Lyreco whose shares of supply are larger than the combined share of the Parties.

Competition between contract stationers

77. The Parties submit that contract stationers typically participate in tender processes to win new contracts.

78. The Parties submit that the most important competitive factor is price and that customers are very price-sensitive. Furthermore, Vasanta submits that between [X]% and [X]% of its revenues of contract stationery is either derived from new bids won or retained, indicating that a large proportion of business would be lost, unless the company competed strongly for new business. According to the Parties, relevant non-price competitive factors include product availability, next-day delivery, service, quality of product and range of products.

79. Vasanta estimates that around [X]% of sales through the contract stationery channel are made under framework agreements. Vasanta further submits that a framework agreement is usually for a period of three years with an option to extend for a further 12 months. Customers are not committed to purchasing solely via the framework and may seek suppliers from alternative suppliers/channels during the duration of the framework.

¹⁸ Figures do not add up to 100% due to rounding.

¹⁹ The combined figures given for Spicers/Office Team represent the merger that was [announced](#) on 25 July 2014.

80. The Parties each submitted contract stationery bidding data for 2013 and 2014.²⁰ The bidding data contains (incomplete) information about the scope of products that was tendered. The majority of tenders are for stationery, EOS, IT, paper and/or facilities supplies. Some tenders are for a broad range for products across various categories, some tenders are only for one product category and others are only for specific items of a product category.
81. Table 3 summarises key results from the Parties' bidding data, indicating number of bids submitted, number of competing bids between both Parties, share of competing bids when both Parties were bidding and the average weight of price on the bidding selection criteria.

TABLE 3 Analysis of Parties' bidding data for 2013/14

[X]

82. Overall the average weight of price as a selection criteria (where the information was available) was [X]% and [X]% respectively.
83. As shown by Table 3 above, the Parties only competed in around [10–20]% of the total bids they submitted. The bidding data available to the CMA therefore does not provide any evidence that the Parties are particularly close competitors, or compete more closely than suggested by their shares of supply.
84. Third party responses showed that tender processes are common and that customers are price sensitive. One contract stationer stated that products and services provided are highly comparable and there is limited scope for product differentiation. It also indicated that switching was fairly easy and since customers are very price sensitive and given the rather short duration of supply contracts, switching can and does occur frequently.
85. The CMA received responses from five customers of contract stationers. Four of these five customers provided ratings regarding the suitability and strength of contract stationers by product category (though not all customers rated all of the contract stationers listed). The results are depicted in Table 4.

²⁰ O2O stated that its data does not include all of the bids that have been made by O2O but only tracks those bids that have been recorded in O2O's electronic system.

TABLE 4 **Average of third party responses regarding suitability of contract stationers by category (rating on a scale of 1 to 5 with 5 being a very strong supplier)**

	<i>Stationery</i>	<i>EOS</i>	<i>Paper</i>	<i>IT</i>	<i>Furniture</i>
Supplies team	3.7	4.5	4.0	3.0	1.0
Spicers	3.5	3.0	3.5	3.0	2.0
Office Team	3.0	2.7	3.0	3.0	1.0
Lyreco	4.0	3.0	3.5	3.0	2.0
Office Depot	4.3	4.0	4.3	4.0	3.0
Banner	4.3	3.3	4.0	4.0	2.5
Staples	4.0	3.3	3.3	3.0	3.0

Source: CMA based on evidence received from third parties.

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86. Seven contract stationers were rated including the Parties. The CMA notes that all contract stationers received ratings between 3.0 and 4.5 for stationery, EOS, paper, and IT with the exception of Office Team for EOS (2.7). The majority of contract stationers received low ratings below 3.0 for furniture, suggesting that contract stationers may not be generally considered suitable as suppliers for office furniture.
87. One customer mentioned further suppliers as possible alternatives (particularly for stationery, EOS, paper) including online suppliers (such as Amazon) and suppliers of facilities supplies (such as Bunzl). Local dealers were considered by this customer as reliable alternatives for all categories except furniture. Additionally, there are specialist suppliers (like Westcoast) for EOS and IT.
88. The CMA notes that its assessment is not materially affected as to whether the merger between Spicers and Office Team does proceed or not as several competitors remain in the market.

Northern Ireland

89. As mentioned above, the CMA has considered the situation in Northern Ireland. One customer raised concerns particularly with respect to Northern Ireland stating that it expected prices to increase following the Merger as there would be a near monopoly on the supply of stationery to the public sector. In a tender process for the EOS products the customer received only two bids (both from the Parties) although six suppliers had been included in the framework and were invited to bid.
90. The CMA sought to identify which contract stationers were operating in Northern Ireland. One contract stationer told the CMA that historically the prices were higher, but that contract stationer currently treats Northern Ireland the same way as the UK. However, as Northern Ireland was previously part of the Irish Business Unit, the contract stationer stated that it had some legacy agreements where Northern Ireland is treated differently but these contracts will be replaced by new contracts when they expire. Another contract stationer

told the CMA that Northern Ireland is served the same way as the rest of the UK, however, Northern Ireland might be aligned with the Republic of Ireland as the sales force is the same for the Republic of Ireland and Northern Ireland and the warehouse for Northern Ireland is located in Dublin. Another contract stationer told the CMA that it operates in Northern Ireland and has the same business strategy across the whole of the UK. No contract stationer indicated that it operated a different business strategy in Northern Ireland. One contract stationer who did not bid for the tender noted above stated that it did generally bid for tenders for which it was invited in Northern Ireland. Two other large contract stationers that have not responded to the CMA's questionnaire state on their website that they operate throughout the UK.

91. One customer who operates several framework agreements across the UK stated that it was not aware of any significant differences between numbers of bidders, prices or service levels obtained through further competitions that relate to Northern Ireland as all framework suppliers provide full UK geographic coverage.
92. The CMA considers that overall the evidence available to it indicates that contract stationers operate across the UK including Northern Ireland and provide sufficient competitive constraint on the Parties in Northern Ireland. Therefore, the CMA considers it unlikely that the Merger will impact customers in Northern Ireland differently than in the rest of the UK.

Conclusion on contract stationery channel

93. Based on the evidence set out above, the CMA considers that the Parties' combined share of supply in the contract stationery channel is moderate, customer contracts are generally tendered and switching appears to regularly take place, customers are price sensitive, there is no evidence that the Parties are particularly close competitors and the Parties face several large competitors including two with higher shares of supply. Therefore, the CMA considers that the Merger does not give rise to horizontal unilateral effects at the contract stationery level.

Conclusion on horizontal unilateral effects

94. The CMA found that the Merger does not give rise to a realistic prospect of a substantial lessening of competition as a result of horizontal unilateral effects in relation to the supply of business supplies in the wholesale channel (including for specific product categories) or the contract stationery channel.

Vertical effects

95. As previously discussed, Vasanta is primarily a broad line wholesaler and O2O's main activity is as a contract stationer. There is a vertical overlap in that O2O as a contract stationer is downstream from Vasanta as a wholesaler. The CMA also considered whether the Merger may give rise to vertical effects, in particular by assessing:
- Whether the Parties may engage in input foreclosure after the completion of the Merger, for example, by terminating VOW's business relationship with competing contract stationers or increasing prices it charges for business supplies supplied to competing contract stationers. To this effect, the CMA assessed the Parties' ability and incentives to foreclose their competitors, as well as whether any detriment would be likely to result.²¹
 - Whether the Parties may engage in customer foreclosure, for example, by stopping to procure from competing wholesalers. To this extent, the CMA considers the Parties' ability and incentive to foreclose customers.²² However, since O2O has procured only to a limited extent from wholesalers, the CMA has not further assessed this theory of harm.

Ability to foreclose

96. In assessing the ability of the merged firm to engage in partial input foreclosure, the CMA considered evidence on the cost of the input relative to all costs of the final product offering and the extent to which rival contract stationers can avoid a price increase by switching away from this input.²³
97. The Parties stated that they would not have the ability to profitably raise prices or withhold supplies from dealers or end customers because those dealers and customers would be able to switch supplier to other broad line wholesalers.
98. Two large contract stationers expressed slight concerns regarding possible price increases at the wholesale level following the merger. However, both contract stationers stated that they mainly source non-core requirements from VOW and that they purchase less than 5% of their requirements from VOW. Additionally they stated that they would be able to find alternative sources, if they had to replace VOW. Furthermore a smaller contract stationer who

²¹ See [Merger Assessment Guidelines](#), Section 5.6.6.

²² See [Merger Assessment Guidelines](#), Section 5.6.13.

²³ See [Merger Assessment Guidelines](#), Section 5.6.10.

purchases approximately 45% of its requirements from VOW did not express concerns and stated that it was possible to switch away from VOW.

99. The CMA notes that large contract stationers purchase only a small fraction of their requirements from wholesalers and there are alternative sources available. While small dealers may purchase to a larger extent from wholesalers those dealers indicated that they have the possibility to switch to a competing wholesalers.
100. Therefore, the CMA considers that Parties do not have the ability to foreclose customers.

Incentive to foreclose

101. To assess whether the merged firm would have an incentive to increase the prices charged for the input to the competing contract stationers, the CMA considers the factors affecting the profitability of such an increase in the input price and the extent to which these factors change as a result of the merger. In particular, this includes an assessment of loss of profits at the wholesale level, gains in profits in the market for the final product and the relative level of variable profit margins on the input and the final product.²⁴
102. The CMA considers that it is very unlikely that prices increases at the wholesale level would increase the Parties' profit considerably at the contract stationary level. Large contract stationers source [0–10]% of their requirements from the Parties. Price increases would affect smaller dealers to a larger extent. However, smaller dealers compete to a lesser extent with the Parties downstream.²⁵ The CMA considers that a significant number of large contract stationers remain in the market which results in a strong competitive constraint and make it unlikely that the Parties can increase either sales or profits significantly.
103. Having considered variable profit margins the CMA considers that although [X], this is unlikely to compensate for substantial losses at the wholesale level given that sales are unlikely to increase considerably at the downstream level (contract stationery). However, the CMA does not need to conclude on the incentive to foreclose, given that the CMA considers the Parties do not have the ability to foreclose customers.

²⁴ See [Merger Assessment Guidelines](#), Section 5.6.11.

²⁵ According to the bidding data, local dealers compete in approximately 10% of the tenders.

Conclusion on vertical effects

104. The CMA, therefore, considers that it is unlikely that the Merger will give rise to any anti-competitive vertical effects. The CMA notes that its assessment is not materially affected as to whether the transaction between Spicers and Office Team does proceed or not.

Barriers to entry and expansion

105. Entry, or expansion of existing firms, can mitigate the initial effect of the acquisition on competition, and in some cases may mean that there is no substantial lessening of competition. In assessing whether entry or expansion might prevent a substantial lessening of competition, the CMA considers whether such entry or expansion would be timely, likely and sufficient.²⁶
106. The Parties submit that for both product frame of references there are no material entry barriers that prohibit or make entry very expensive. In particular; there is no legal framework or regulatory barriers to entry; technology or innovative solutions are primarily used in warehouses being available to all market participants through third parties.
107. However, the CMA has not had to conclude on entry or expansion as no competition concerns arise on any basis in any event.

Third party views

108. The CMA received responses from wholesale customers, contract stationer customers, suppliers and a logistics provider. The CMA has not received any responses from competing wholesalers. Two wholesale customers expressed slight concern regarding price rises and one customer of contract stationers expressed concerns with regard to Northern Ireland.
109. Third party comments have been taken into account where appropriate in the competitive assessment above.

Decision

110. Consequently, the CMA does not believe that it is or may be the case that the Merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

²⁶ [Merger Assessment Guidelines](#), paragraph 5.8.1 ff.

111. The merger will therefore **not be referred** under section 33(1) of the Act.

Nelson Jung
Director of Mergers
Competition and Markets Authority
20 October 2014